Legislative Budget and Finance Committee

A JOINT COMMITTEE OF THE PENNSYLVANIA GENERAL ASSEMBLY
Offices: Room 400 Finance Building, 613 North Street, Harrisburg
Mailing Address: P.O. Box 8737, Harrisburg, PA 17105-8737
Tel: (717) 783-1600 • Fax: (717) 787-5487 • Web: http://lbfc.legis.state.pa.us

Study of the Economic Impact of the Brewery Industry in the Commonwealth

A Report in Response to Senate Resolution 2012-216

January 2013

Table of Contents

Report Summary

The Pennsylvania brewery industry has grown in recent years, with over 100 breweries licensed in the state at the end of 2011. The Legislative Budget and Finance Committee (LB&FC) was directed by Senate Resolution 2012-216 to conduct an economic impact study of the brewery industry in the Commonwealth. See Appendix A for a copy of Senate Resolution 2012-216.

Findings and Conclusions

The brewing industry is a dynamic part of the U.S. economy, accounting for about $223.8 billion in output, or 1.5 percent of Gross Domestic Product (GDP) in 2010. American and international brewers, along with their wholesale and retail partners, directly or indirectly employed approximately 1.84 million employees, and these workers earned almost $71.2 billion in wages and benefits. Members of the brewing industry and their employees paid $33.5 billion in direct federal, state and local taxes. In addition, the consumption of beer throughout the country generated $5.3 billion in federal and state excise taxes, $4.9 billion in state sales taxes, and almost $682.2 million in other beer-specific local taxes.

In the last decade the craft beer industry has grown. Since 2000, entrepreneurs and beer enthusiasts have opened hundreds of new breweries, most of which are very small, with annual production levels between 5,000 to 100,000 barrels. These craft brewers account for approximately 5 percent to 7 percent of the total American beer market. According to the Brewers Association, more than 95 percent of the approximately 2,000 breweries in the United States are small and independent craft brewers.

Statewide, as of December 31, 2011, over 100 breweries were licensed to operate in Pennsylvania. See Exhibit 8 on page 22 for a map showing the number of breweries in each county.

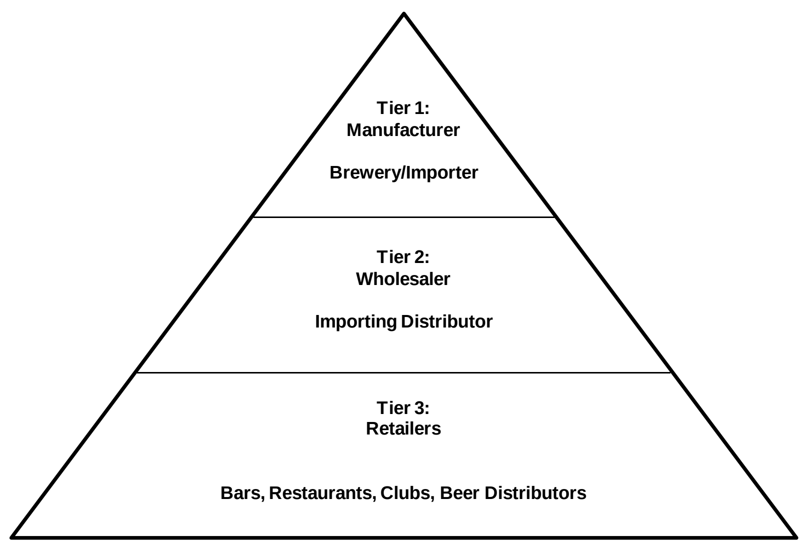
The Number of Active Breweries in Pennsylvania Has Almost Doubled From 2001 to 2011

The growth in breweries in Pennsylvania mirrors that in the rest of the country, primarily due to the increased interest in craft breweries. Craft breweries represent a new strategy in the brewing industry. Rather than competing on the basis of price or advertising, craft breweries compete on the basis of product characteristics. As such, they emphasize the freshness of locally produced beer, experiment with stronger malt and hops flavors, and try new and long-discarded brewing recipes. These breweries range from one person operations that brew a few barrels of beer to breweries that employ hundreds of workers and produce thousands of barrels of beer.

Regulatory Structure of the Beer Industry

After the repeal of Prohibition in 1933, the Pennsylvania General Assembly established a three-tier system for the production, distribution, and retail sale of malt and brewed beverages in the PA Liquor Code. The exhibit below depicts the three-tier system for malt and brewed beverages in Pennsylvania.

Three-tier System in Pennsylvania



Source: Pennsylvania Beer Alliance.

As shown on the exhibit, the "three-tier" distribution system generally permits manufacturers/producers (i.e., breweries) to sell their product only to distributors; permits distributors (i.e., wholesalers) to sell to retailers (e.g., taverns); and permits only retailers to sell to public consumers. Businesses involved in each tier of the system are licensed by the Liquor Control Board, and that license permits the licensee to engage in certain defined activities.

Under this system, a licensed in-state manufacturer (brewer) may sell malt or brewed beverages to the public at its licensed facility for off-premise consumption. In addition, it may designate itself as the primary importing distributor for its beverages within Pennsylvania, thereby allowing direct delivery and sales to licensed retailers. The manufacturer may also enter into a territorial agreement with an importing distributor or distributor for the distribution of its product.

An out-of-state manufacturer (brewer), however, is required to use importing distributors with designated geographic territories for the distribution of their product in Pennsylvania. Distributors and importing distributors may only purchase, receive, resell, or deliver malt or brewed beverages in strict compliance with the distributor's territorial franchise agreements. Accordingly, retailers may only purchase beer produced by an out-of-state manufacturer from those importing distributors or distributors that have been granted the right to sell beer to licensees located in that geographic territory.

The PA Liquor Code requires the franchise agreements to be in writing, substantially similar to all such agreements between the manufacturer and its other importing distributors and distributors. The agreement cannot be modified, terminated, or rescinded by the manufacturer without good cause. Other states have less restrictive requirements allowing a manufacturer to "buy-out" the agreement for fair market value in certain situations.

The distinction of in-state and out-of-state manufacturers, as it relates to wineries, was held unconstitutional in Granholm v. Heald. In that case, in-state wineries could ship product directly to consumers, but out-of-state wineries were required to ship to a distributor. Although no specific case related to malt and brewed beverages has been adjudicated in Pennsylvania, the PLCB has noted it is likely that a court would use a similar analysis to that in Granholm. Several efforts have been made to amend this provision of the Liquor Code, but to date they have been unsuccessful.

Pennsylvania Breweries Had a Direct Economic Impact of Approximately $1.1 Billion in 2010

We sent a survey to all breweries licensed in Pennsylvania as of December 31, 2011. In addition to the information supplied directly by the breweries that responded, we calculated the percentage of economic impact reported in the 2010 Beer Institute report[1] that could be attributed to Pennsylvania breweries and their product and confirmed tax information with the PA Department of Revenue. Although nationwide craft breweries represent about 5 to 7 percent of the market, in Pennsylvania, it has been estimated that craft beers account for about 20 percent of the market.

According to the Beer Institute, the malt beverage industry's impact on Pennsylvania in 2010 included providing almost 60,000 jobs across all sectors of the economy. Members of the industry and their employees earned $2.2 billion in wages and benefits, while also paying $491 million in federal and $365 million in state and local taxes. The sales of beer in the Commonwealth generated an additional

[1] The Beer Institute, *The Economic Impact of the Beer Industry*, 2010 Data, Pennsylvania.

$156 million in federal and $187 million in state and local consumption taxes. Total output was estimated to be $6.9 billion.[2] Pennsylvania ranked tenth among the states in total output.

Since the economic impacts calculated by the Beer Institute include the sales of all malt beverages, not just those produced in Pennsylvania, we used an estimate of the percentage of the Beer Institute numbers for the wholesaling and retailing tiers to calculate the direct impact to the state of Pennsylvania from only product produced and sold in Pennsylvania. Based on those calculations, we estimate that the direct economic impact of beer produced and sold in Pennsylvania is over 10,000 jobs, $296 million in wages, and $1.1 billion in direct output.

In addition, responses to our survey show that as the number of breweries increased over the past five years, capital investment in plant and equipment has grown 318 percent. From 2007 through 2011, investment and other expenditures by breweries totaled $782 million. Employment has grown 10 percent annually, with brewery payrolls increasing by 31 percent each year. Production increased 19 percent from 2010 to 2011, and revenues are up 148 percent from 2007, or about 30 percent annually. Taxes and fees remitted to state and local governments have also shown a steady increase over the five years surveyed.[3] State taxes have gone up 33 percent annually since 2007, while license fees collected by the Commonwealth from breweries and brew pubs has averaged $116,000 over the past three fiscal years. As shown below, the breweries reported significant economic growth in many areas between 2010 and 2011.

Selected PA Brewery Survey Totals

	2010	2011	Percent Change
Production (31 gallon Barrels) .	3,646,523	4,333,747	18.8%
Employees:			
Full-time................................	1,598	1,874	17.3%
Part-time................................	634	762	20.2%
Payroll (without benefits)..........	$41,830,469	$49,002,275	17.1%
Revenues	$148,555,578	$177,756,080	19.7%
Taxes Paid (State and Local)...	$4,288,714	$4,913,333	14.6%
Capital Investment:			
Plant	$15,820,748	$13,321,834	-15.8%
Equipment	16,918,460	28,940,442	71.1
Total Capital Investment	$32,739,208	$42,262,276	29.1%
Other Expenditures	$151,945,265	$165,481,217	8.9%

Source: Developed by LB&FC staff using responses from LB&FC survey to breweries and brew pubs.

[2] The Beer Institute used IMPLAN to calculate direct, indirect, and induced output.
[3] One of these taxes, the malt beverage tax, has remained unchanged since 1947.

An Estimated 2 Million Tourists With Total Expenditures of $305.6 Million Visited Pennsylvania Breweries in 2010

The brewery industry has also had an impact on tourism in the Commonwealth. *The Annual Traveler Profile Report*, commissioned by the PA Department of Community and Economic Development (DCED), focuses on "marketable" travelers which it defines as:[4]

> travelers destination for purely leisure purposes (i.e., non-business) and whose stay can be influenced by marketing (i.e., travel to a destination for purposes other than to visit friends and family).

Using this definition, the report shows an estimated 23 million marketable overnight travelers and 66 million marketable day trip travelers in 2010. Surveys of the overnight marketable travelers indicated that in 2010, 3 percent had been to a brewery. Surveys of the marketable day trip travelers indicated that 2 percent had been to a brewery. Using the expenditure per visitor calculation from the *Economic Impact Report*,[5] we calculate that these visitors accounted for $305.6 million in travel expenditures in Pennsylvania in 2010. We recognize that travelers who visited a brewery may have also participated in other activities that may have influenced their decision to travel in Pennsylvania and, therefore, these expenditures may also be attributed in part to those other activities.

The Annual Traveler Profile Report also includes information on festivals, which may include beer festivals. Since we cannot identify those responses referencing festivals that refer to "beer-related" festivals to attach a number for purposes of our calculation, we only used the "brewery visited" number in calculating the impact of breweries on tourism. However, we note the following factors which may further impact tourism numbers and affect the actual economic impact of breweries on tourism in Pennsylvania:

Pennsylvania Beer Festivals and Events. Numerous beer festivals and events are held throughout the Commonwealth. Examples include:

- The Susquehanna Ale Trail Passport Inaugural Event was held April 13-15 and 20-22, 2012, and featured seven breweries located in south central Pennsylvania. The event was limited to 500 tickets ($10 each) total for both weekends. Initial numbers show that 350-400 people attended.
- Philly Beer Week is a 10-day celebration of the "Best Beer-Drinking City in America" established in 2008. It is the largest beer celebration of its

[4] *The Economic Impact of Travel and Tourism in Pennsylvania, Tourism Satellite Account, CY 2010* (Economic Impact Report) uses two categories of travelers: business and leisure. The Annual Traveler Profile further distinguishes travelers by business/leisure and visiting friends/relatives.
[5] *The Economic Impact Report*.

kind in America with an estimated 50,000 people attending an average of 1.6 events and spending about $178 on beer and $150 on food and other items in 2012. The direct impact on the local economy was $16.4 million.

- The initial Dauphin County Beer Festival was held July 21, 2012, at Fort Hunter Park in Harrisburg. The event hosted a capacity crowd of 750 attendees (the maximum allowed by the breweries), with 500-600 of them having paid $35 in advance or $50 at the door.
- The Hops, Vines and Wines Selinsgrove Brew Festival was held July 21, 2012, in downtown Selinsgrove. A total of 1,557 general admission tickets and 54 designated driver tickets were sold.

Charitable Events. Charitable and other community events reported by the breweries responding to our questionnaire totaled approximately 300 unduplicated events.[6] These include events that benefited a specific charity, with the brewery donating product to the event. The breweries responding to our questionnaire estimated approximately 170,000 attendees at these events.[7]

Brewery Tours. Twelve of the breweries responding to our questionnaire offer tours of their breweries. In total, these breweries reported approximately 74,000 participants in their tours in 2011, with an estimated 30 percent of them from out-of-state. The Visit Pa website includes a three-day itinerary with recommended visits to four breweries/brew pubs. DCED does not maintain statistics on the number of visitors who may have used the "Hoppy Trails" suggested itinerary, so its direct impact on the number of visitors to the state, or from one area of the state to another, is unknown. The website also includes a listing of Pennsylvania breweries that offer tours.

Recommendations

We were directed by Senate Resolution 216 to identify legislative changes that would continue to promote the growth of the brewery industry in the Commonwealth. We recommend:

1. **The General Assembly should consider amending the Liquor Code to address the <u>Granholm</u> decision as it may relate to malt and brewed beverages.** Several approaches have been considered: require all manufacturers to use an importing distributor; allow all manufacturers to self-distribute; or allow all manufacturers to self-distribute a specified percentage of their product.

[6] We could not determine in all cases the type of event listed; therefore, we are including all events in this category. These events may overlap the examples of festivals listed above.
[7] Not all responding breweries included estimates of attendees or a listing of specific events.

2. **The General Assembly should consider amending the provisions of the Liquor Code related to the franchise agreements to reflect the change in the industry due to the growth in the number of smaller craft manufacturers.** In doing so, the General Assembly should consider the approaches taken in several other states that allow for the dissolution of the franchise agreement with the payment of fair market value when the manufacturer's product accounts for a specified percentage of the distributor's business.

I. Introduction

Senate Resolution 216 directed the Legislative Budget and Finance Committee to conduct an economic impact study of the brewery industry in this Commonwealth. See Appendix A for a copy of Senate Resolution 216.

Study Scope and Objectives

Specifically, the study seeks:

- To explain the three-tier malt and brewed beverage system established in the Liquor Code.
- To analyze the current economic impact of the brewery industry in this Commonwealth.
- To analyze the impact of the brewery industry on Pennsylvania tourism.
- To analyze the impact of the brewery industry on other industries located in this Commonwealth.
- To identify legislative changes, including, but not limited to, changes to the Liquor Code and the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971, that will continue to promote the growth of the brewery industry in this Commonwealth.

Methodology

To understand the three-tier malt and brewed beverage system, we reviewed the Pennsylvania Liquor Code, met with PA Liquor Control Board (PLCB) staff and met with brewers, importing distributors, distributors, and other stakeholder groups. Additionally, we reviewed the history of Pennsylvania's development of the three-tier system after the enactment of the 21st Amendment.

To analyze the economic impact of the malt and brewed beverage industry on the Commonwealth, tourism, and other industries in the Commonwealth, we sent a questionnaire to all breweries licensed by the PLCB as of December 31, 2011, using information provided by the PLCB and the Brewers of Pennsylvania. We made follow-up contacts with several of the respondents to ensure our understanding of the data provided in their responses.

The questionnaire sought information on the revenues, production levels, distribution processes, number of employees, payroll and benefits for employees, capital investments made, plant and equipment investment made, taxes paid, and other expenditures by the brewery. Due to the sensitive nature of the information we requested, we will only be providing aggregated results of their responses in this report.

In addition, we contacted the PA Department of Revenue Bureau of Trust Fund Taxes for information on the malt beverage tax, corporate net income tax, capital stock and franchise tax, and personal income tax withholding collected by the Department from Pennsylvania breweries. We also contacted the PA Department of Labor and Industry for current employment figures for the industry and the Department of Agriculture for data regarding the sale of grains to breweries.

To supplement the data we received from the questionnaire process, we reviewed the Beer Institute's 2010 Economic Contribution Study and the data it reported for the malt and brewed beverage industry in Pennsylvania. Since their data includes all malt and brewed beverage activity, including those malt and brewed beverages produced outside of Pennsylvania, we spoke with their economist to develop a reasonable percentage of activity that could be attributed to in-state manufacturers. See Appendix B for more detailed information about the methodology used to determine the economic impact on the Commonwealth.

To determine the economic impact on the tourism industry, as part of the questionnaire process we asked for information about brewery tours offered and the participation in those tours as well as events, e.g., festivals, involving the brewery. We contacted the Department of Community and Economic Development's Bureau of Tourism for information regarding the VisitPA website. We also reviewed *Pennsylvania's Annual Traveler Profile 2010 Travel Year* (Longwoods, April 2012) and *The Economic Impact of Travel and Tourism in Pennsylvania, Tourism Satellite Account Calendar Year 2012* (Tourism Economics, February 2012) to calculate tourism expenditures related to brewery activities. We also contacted several of the county visitors' bureaus and organizers of specific events in an effort to provide specific participation information in our report.

Acknowledgements

We thank the Brewers of Pennsylvania for their assistance throughout this project and each of the brewers who responded to our questionnaire. We thank the PA Beer Alliance, the PA Malt Beverage Distributors Association, and the PA Tavern Association for their assistance with our work. We also thank the staff of the PLCB and the PA Departments of Revenue, Agriculture, Labor and Industry, and Community and Economic Development. Finally, we thank Lester Jones, Chief Economist for the Beer Institute, for his assistance with our work.

Important Note

This report was developed by the Legislative Budget and Finance Committee staff. The release of this report should not be construed as an indication that the Committee or its individual members necessarily concur with the report's findings and recommendations.

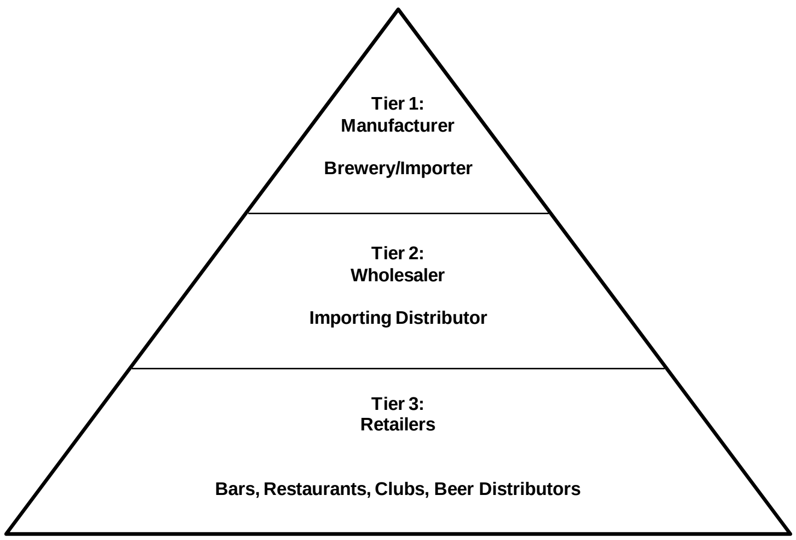
Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

II. Pennsylvania's Three-tier Malt and Brewed Beverage System

The Pennsylvania General Assembly established a three-tier system for the production, distribution, and retail sale of malt and brewed beverages in the PA Liquor Code after the repeal of Prohibition. Exhibit 1 depicts the three-tier system for malt and brewed beverages in Pennsylvania.

Exhibit 1

Three-tier System in Pennsylvania



Source: Pennsylvania Beer Alliance.

Historical Context of the Three-tier System of Licensing and Distribution of Malt and Brewed Beverages

The National Prohibition Act (Pub.L. 66-66, 41 Stat. 305), also known as the Volstead Act, was adopted by Congress in 1919 to implement the recently ratified Eighteenth Amendment to the Constitution of the United States. This act prohibited the manufacture, transportation, and sale of alcohol. Congress repealed Prohibition in 1933 with the ratification of the 21st Amendment. Section 2 of the Amendment gave states the authority to regulate the production, importation, distribution, retail sale, and consumption of alcohol beverages within their borders. The majority of states have used their Section 2 powers to impose a three-tier system as their regulatory scheme.

As shown on Exhibit 1, in Pennsylvania, the "three-tier" distribution system, established in the Liquor Code, 47 P.S. §1-101 et seq., generally permits manufacturers/producers (i.e., breweries) to sell their product only to distributors; permits distributors (i.e., wholesalers) to sell to retailers (e.g., taverns); and permits only retailers to sell to public consumers. The purpose of the three-tier system is to help ensure that alcohol is not sold to minors or to citizens who have voted to live in "dry" counties. Reportedly, it is also to ensure that alcohol beverage taxes are reliably collected, and it allows smaller retailers to have access to more products by prohibiting the "tied-house."[1] This system has four primary goals:

- to avoid the overly aggressive marketing and sales practices of the pre-Prohibition era;
- to generate tax revenues that can be collected efficiently from the beer distribution industry;
- to facilitate state and local control of alcoholic beverages; and
- to encourage moderate consumption.

Licensing Process

Businesses involved in each tier of the system are licensed by the Liquor Control Board, and that license permits the licensee to engage in certain defined activities. These licenses are briefly described below:[2]

Manufacturers:

- Brewery: produce and manufacture, transport, sell, and deliver malt or brewed beverages in any quantity for off-premises consumption. May self-distribute or use a wholesaler or distributor with a territorial agreement.
- Brew-pub: sale of product on or off premises. May also sell Pennsylvania wines purchased from either the holder of a Pennsylvania limited winery license or from the PLCB for on-premises consumption.
- Contract Brewery: a business that hires another brewery to produce its beer. The contract brewing company generally handles all of the marketing, sales, and distribution, while leaving the brewing and packaging to the producer-brewery.
- Alternating Brewers: produce malt or brewed beverages on premises that are licensed by another entity under a Pennsylvania manufacturer's license. Must use an importing distributor with a territorial agreement.

[1] A tied-house is a system under which the brewer, vintner, or distiller typically owned one or more retail establishments, excluding in the process, all other competition. Current law precludes such arrangements.
[2] This is not an exhaustive list of all licenses issued by the PLCB. We chose to highlight those most directly related to our study.

Wholesalers:

- Importing Distributors: sale of malt or brewed beverages in quantities of a case or containers containing 128 ounces or more for off-premises consumption. All malt and brewed beverages manufactured out-of-state must be distributed through a wholesaler using territorial agreements.

Retailers:

- Distributors: sale of malt or brewed beverages in quantities of a case or containers containing 128 ounces or more for off-premises consumption. Product must be purchased from in-state manufactures or wholesalers. Sale to other licensed retailers is through territorial agreements.
- Restaurant: sale for on- or off-premises consumption (off-premises sales of beer up to 192 fluid ounces in a single sale to one person). The primary purpose of this license is to provide food service to the public; the service of liquor, wine, and beer products is secondary. Licensees may not sell wine or liquor for off-premises consumption.
- Eating Place: sale for on- or off-premises consumption (off-premises sales of beer up to 192 fluid ounces in a single sale to one person). Licensees may not sell liquor or wine.
- Hotel: sale for on- or off-premises consumption (off-premises sales of beer up to 192 fluid ounces in a single sale to one person). Licensees may not sell wine or liquor for off-premises consumption.
- Club: sale for on-premises consumption only.
- Public Venue: sale for on-premises consumption only.
- Golf Course: sale for on-premises consumption only.
- Performing Arts Facility: sale for on-premises consumption only.

Distribution of Malt and Brewed Beverages Under the the Three-tier System in Pennsylvania

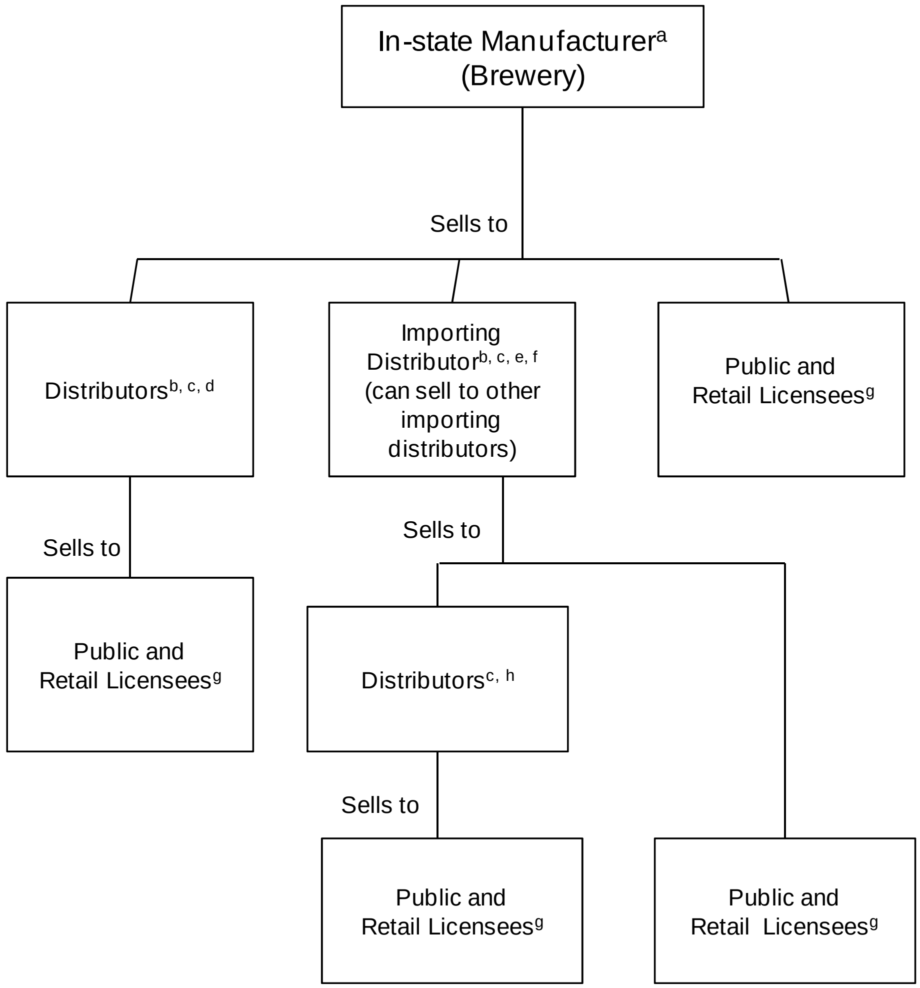
Under the three-tier system, a licensed in-state manufacturer (brewer) may sell malt or brewed beverages to the public at its licensed facility. In addition, it may designate itself as the primary importing distributor for its beverages within Pennsylvania, thereby allowing direct delivery and sales to the public and licensed retailers. The manufacturer may also enter into a territorial agreement with an importing distributor or distributor for the distribution of its product. Further, it may operate two additional places of storage to receive, store, sell, and distribute its products and may ship its beer brewed out-of-state to its in-state facility.[3] Exhibit 2 shows a flow chart of this process.

---

[3] Sales of malt or brewed beverages may not be made at any time in a warehouse, except those in which the principal office or place of business of the licensee is maintained (40 Pa. Code §9.95).

Exhibit 2

In-state Manufacturer Sales



[a] Manufacturers are prohibited from entering into agreements with more than one distributor or importing distributor for the purpose of establishing more than one agreement for a designated brand or brands of malt or brewed beverages in any one territory. In-state manufacturers with a retail license as well as all alternate brewers are required to use an importing distributor. The manufacturer may use up to two storage locations in the Commonwealth.
[b] One license for each 30,000 inhabitants of the county in which the license is to be issued. However, the Board may issue at least five combined distributor and importing distributor licenses in each county.
[c] May not sell for consumption on premises.
[d] Distributors may sell or deliver malt or brewed beverages anywhere in the Commonwealth when such beverages have been purchased from PA-licensed manufacturers or importing distributors, subject to applicable territorial agreements.
[e] Importing distributors may sell or deliver malt or brewed beverages anywhere within the Commonwealth, subject to their territorial agreement, which have been purchased from manufacturers or persons outside the Commonwealth engaged in the legal sales of malt or brewed beverages, or from manufacturers licensed in the Commonwealth.
[f] An importing distributor with distribution rights from the manufacturer may not sell, etc., to another importing distributor without a written agreement setting forth the terms and conditions under which such products are to be resold within the primary importing distributor's territory.
[g] Retail licensees include restaurants, hotels, eating place retail dispensers, clubs, etc.
[h] A distributor must purchase all out-of-state products from an importing distributor who has been appointed to the territory in which the distributor is located.

Source: Developed by the LB&FC staff based on the PA Liquor Code.

An out-of-state manufacturer (brewer) is required to use importing distributors with designated geographic territories for the distribution of their product in Pennsylvania. Distributors ("D" license holders) and importing distributors ("ID" license holders) may only purchase, receive, resell, or deliver malt or brewed beverages in strict compliance with the distributor's territorial franchise agreements. Accordingly, retailers may only purchase beer produced by an out-of-state manufacturer from those importing distributors or distributors that have been granted the right to sell beer to licensees located in that geographic territory. Like in-state manufacturers, out-of-state manufacturers are also permitted to have two storage locations within the state. Exhibit 3 shows a flow chart of this process.

Distributors and importing distributors are required to maintain malt and brewed beverages in cases or original containers of 128 ounces or more for sale for off-premises consumption. Written territorial franchise agreements between the out-of-state or in-state manufacturer and its importing distributor regulate, among other things, the geographical area in which the importing distributor may sell the manufacturer's products. Importing distributors may then sell the products to other importing distributors, distributors, and other licensees within their appointed territories. A distributor must purchase all out-of-state products from an importing distributor who has been appointed to the territory in which the distributor is located.

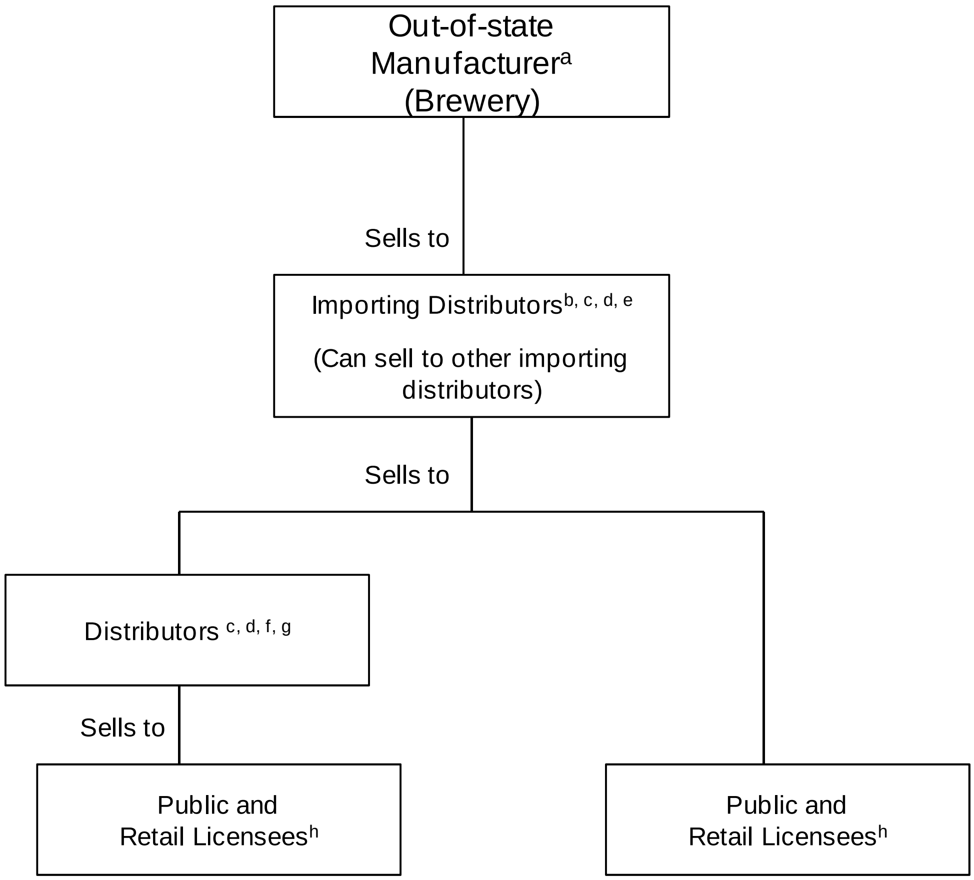
The Liquor Code and the Board's regulations require an importing distributor granted distribution rights by a manufacturer to have a written contract to sell or deliver malt or brewed beverages to another importing distributor, setting forth the terms and conditions under which such products are to be resold within the territory granted to the primary importing distributor by the manufacturer. Importing distributors may sell or deliver malt or brewed beverages anywhere within the Commonwealth, subject to their territorial agreement(s), which have been purchased from manufacturers or persons outside this Commonwealth engaged in the legal sale of malt or brewed beverages, or from manufacturers licensed in Pennsylvania.

Distributors, on the other hand, may sell or deliver malt or brewed beverages anywhere within the Commonwealth of Pennsylvania when the beverages have been purchased from licensed Pennsylvania manufacturers or importing distributors, as may be provided for in any applicable territorial agreements.[4] Further, manufacturers are restricted to having one distributor or importing distributor for a designated brand or brands of malt or brewed beverages in any one territory.

[4] Agreements, franchises, or statements of distribution rights given by a manufacturer or by an importing distributor must be in writing. (40 Pa. Code §9.96).

Exhibit 3

Out-of-state Manufacturer Sales



---

[a] Manufacturers are prohibited from entering into agreements with more than one distributor or importing distributor for the purpose of establishing more than one agreement for a designated brand or brands of malt or brewed beverages in any one territory. The manufacturers may ship to up to two storage locations in the Commonwealth.
[b] Importing distributors may sell or deliver malt or brewed beverages anywhere within the Commonwealth, subject to their territorial agreement, which have been purchased from manufacturers or persons outside the Commonwealth engaged in the legal sales of malt or brewed beverages, or from manufacturers licensed in the Commonwealth.
[c] One license for each 30,000 inhabitants of the county in which the license is to be issued. However, the Board may issue at least five combined distributor and importing distributor licenses in each county.
[d] May not sell for consumption on premises.
[e] An importing distributor with distribution rights from the manufacturer may not sell, etc., to another importing distributor without a written agreement setting forth the terms and conditions under which such products are to be resold within the primary importing distributor's territory.
[f] A distributor must purchase all out-of-state products from an importing distributor who has been appointed to the territory in which the distributor is located.
[g] Distributors may sell or deliver malt or brewed beverages anywhere in the Commonwealth when such beverages have been purchased from PA-licensed manufacturers or importing distributors, subject to applicable territorial agreements.
[h] Retail licensees include restaurants, hotels, eating place retail dispensers, clubs, etc.

Source: Developed by the LB&FC staff based on the PA Liquor Code.

Potential Effect of Granholm Decision on Malt and Brewed Beverage Distribution

The disparate treatment of in-state and out-of-state manufacturers as it applies to the production and sale of wine has been subject to court review in recent years. A 2005 U.S. Supreme Court decision, Granholm v. Heald,[5] held that laws in New York and Michigan that permitted in-state wineries to ship wine directly to consumers but prohibited out-of-state wineries from doing the same are unconstitutional under the federal Commerce Clause. The PA Liquor Code similarly restricted the shipment of wine from out-of-state wineries. In response to this ruling, the PLCB issued an "advisory" to the effect that the in-state wineries could no longer sell or ship directly to consumers. The Pennsylvania law was challenged in Cutner v. Newman.[6] The U.S. District Court for Eastern Pennsylvania held that the "present restrictions against out-of-state wineries cannot constitutionally be enforced."[7] Prior to the decision in the Cutner case the Commonwealth Court had granted a temporary restraining order against the enforcement of the "advisory" notice.

Several bills were pending during the 2011-12 legislative session to amend the law and allow all wineries to ship directly to consumers in Pennsylvania. House Bill 2011-845 and Senate Bill 2011-790 proposed amending the Liquor Code to allow entities licensed in another state as a producer of wine or licensed by the PLCB as a limited winery to ship any quantity and type of wine directly to a resident of the Commonwealth as long as the entity has a direct wine shipper license from the PLCB. Neither bill addressed the distribution of malt and brewed beverages. See Appendix C for a listing of these and other relevant bills related to the Liquor Control Board.

While Granholm and Cutner specifically addressed the disparate treatment of in-state and out-of-state wineries, the PLCB Deputy Chief Counsel testified at a legislative committee meeting that "it would be safe to assume that a similar analysis would be used by the courts if they were asked to review the manner in which malt and brewed beverages are sold and distributed" in Pennsylvania.[8] As noted above, in-state manufacturers of malt and brewed beverages in Pennsylvania are not required to distribute their product through an importing distributor, as is an out-of-state manufacturer, which may give in certain circumstances in-state manufacturers a competitive advantage as they can distribute directly to retail outlets.

Several states have amended their statutes to address the Granholm decision with varying success. For example, Massachusetts amended its law that had favored in-state wineries to give additional distribution rights to wineries that produced 30,000 gallons or less a year. The First Circuit Court of Appeals struck it

---

[5] 544 U.S. 460 (2005).
[6] 398 F.Supp.2d 389 (2005).
[7] 398 F.Supp.2d 389, 391 (2005).
[8] Testimony on House Bill 291 before the Senate Law and Justice Committee, January 26, 2010.

down noting that all in-state wineries made less than 30,000 gallons of wine a year and the statute was an attempt to do covertly what the prior law had done overtly.

In Illinois, however, in response to an out-of-state brewer's effort to purchase a distributorship and self-distribute as allowed for in-state brewers, the state's liquor code was amended to allow small breweries, both in Illinois and outside the state, that produce less than 465,000 gallons or 15,000 barrels a year, to get a permit to distribute up to 232,500 gallons or 7,500 barrels of their own product in Illinois. On appeal, the court held that the issue of in-state and out-of-state manufacturers was moot, since this amendment to the statute eliminated the geographically disparate treatment of beer distributors.

To address the Granholm decision, the PA Liquor Code needs to be amended to eliminate the disparate treatment of in-state and out-of-state manufacturers. The following approaches have been discussed in Pennsylvania and other states for both wine and malt and brewed beverages distribution (as it may be applicable):

- Allow all manufacturers to self-distribute.
- Require all manufacturers to contract with importing distributors.
- Allow all manufacturers to self-distribute a specified amount of product.
- Allow certain size manufacturers to self-distribute either a specific amount of product or all product (keeping the Massachusetts case in mind, the size cannot favor in-state manufacturers). This approach may eventually limit growth in breweries that wish to maintain the ability to self-distribute.

In a prior legislative session, House Bill 2009-291 proposed amending the Liquor Code to eliminate all distinctions between in-state and out-of-state brewers to require all manufacturers to distribute all malt or brewed beverages through the existing three-tier wholesale distribution system. The bill provided for an exception for small manufacturers defined as a manufacturer with a maximum production of 75,000 barrels of malt or brewed beverages per year. The bill was amended several times, and the most recent amendment allowed a manufacturer with total production of 150,000 barrels in the prior calendar year to self distribute up to 75,000 barrels of malt and brewed beverages. The bill was not enacted. None of the bills introduced in the 2011-12 legislative session that affected brewery operations addressed this issue.

Other Statutory Issues Affecting Pennsylvania Breweries

The brewery industry cites the restrictive regulatory structure in which it operates as one of the factors impeding the growth of the business. In addition to the licensing provisions discussed above, several provisions of the Liquor Code that have been cited by brewers and their association as impeding their business and their ability to grow include the following:

1. Franchise agreements with wholesalers (IDs): The Liquor Code requires a manufacturer who designates a distributor or importing distributor as the primary or original supplier of his product in Pennsylvania to designate the specific geographic areas in which the distributor or importing distributor has those rights. Further, all distributing rights are required to be in writing and the agreement must be substantially similar to all agreements between that manufacturer and its other importing distributors and distributors. The Liquor Code states that the agreement, ". . . shall not be modified, cancelled, terminated or rescinded by the manufacturer without good cause . . . ."[9]

   These agreements do not have termination or renewal dates that would allow for amendments to address issues related to the relationship. Additionally, the purchaser of the assets of a manufacturer is obligated to continue all territorial and brand designations of the agreement in effect on the date of purchase. These agreements also remain in effect when the distributor is purchased or otherwise acquired. The courts of common pleas have jurisdiction over disputes.

   Other states have less restrictive requirements than Pennsylvania's, allowing a "buy-out" of the agreement for fair market value in certain situations. As shown on Exhibit 4, Delaware, Illinois, New Jersey, and New York authorize the use of a "buy-out" in certain circumstances, e.g., where the brewer's brands represent 15 percent or less of the wholesaler's business.

   One of the purposes of the more restrictive provisions was to "protect" the relatively small wholesaler from the large manufacturers. In recent years, the consolidation of wholesalers and the growth in the number of craft breweries may have lessened the need for these requirements, at least for the smaller breweries. New York recently amended its law due to this shift in the nature of the industry. This amendment, which becomes effective in January 2013, allows small brewers whose annual volume is less than 300,000 barrels of beer and whose sales to a wholesaler are 3 percent or less of a multi-brand wholesaler's annual business the right to terminate an agreement without "good cause" providing they pay "fair market value."

[9] Good cause is defined as ". . . the failure by any party to an agreement, without reasonable excuse or justification, to comply substantially with an essential, reasonable and commercially acceptable requirement imposed by the other party under the terms of an agreement."

Selected States' Franchise Agreement Termination Provisions

- Delaware: A manufacturer may terminate any wholesaler for "good cause" by providing notice to the wholesaler, or when there is no "good cause," if it pays the wholesaler "reasonable compensation" which can be submitted to an arbitrator for resolution. Good cause is defined in the act. Certain actions allow immediate termination.
- Illinois: A brewer may terminate a distribution arrangement at any time if it pays the wholesaler reasonable compensation for the "fair market value" of the wholesaler's business with relation to the brand or brands. The fair market value includes goodwill. If the brewer's brands represent 10 percent or less of the wholesaler's business for all beer products supplied by all brewers, the parties have the option to submit to expedited binding arbitration. [a]
- Maryland: A franchise agreement cannot be cancelled, terminated, or not renewed unless "good cause" exists. The statute does not define "good cause," which is to be defined in the written agreement. The manufacturer must provide 180 days' notice of its intent to terminate, etc., and the franchisee may rectify any deficiency cited within that time period.
- New Jersey: A successor brewer may terminate an agreement with an existing wholesaler without good cause if the successor brewer first pays "fair market value" to the existing wholesaler for the terminated brands, but such termination may be enjoined if the terminated brands represent 20 percent or more of the existing wholesaler's gross sales. Good cause is defined in statute. Certain actions allow immediate termination including change of ownership without brewer's consent.
- New York: A brewer who implements a national or regional consolidation policy may terminate its relationship with a wholesaler if it pays "fair market value." A brewer may also terminate without good cause if it pays "fair market value" related to the lost brands. An arbitrator may decide "fair market value," but it must be confirmed by a court of competent jurisdiction.[b]
- Ohio: A manufacturer or distributor may cancel, fail to renew, or substantially change a sales area or territory without prior consent for "just cause." The act includes several events that constitute "just cause." The manufacturer or distributor must provide 60 days' notice for reasons other than "just cause."
- West Virginia: The statute requires "just cause" to terminate a franchise agreement but does not define "just cause." A party must be given 90 days' notice of a termination, etc. Notice of 60 days is required if one party is seeking to sell or transfer the business.

[a] A recent amendment reduced the total annual volume of beer products being supplied by the brewer to the wholesaler from 15 percent or less to 10 percent or less for purposes of certain compensation requirements being applicable to the termination of an agreement between a brewer and a wholesaler.

[b] A recent amendment to the law, effective January 1, 2013, allows brewers with annual volume less than 300,000 barrels of beer and whose sales to a wholesaler are 3 percent or less of a multi-brand beer wholesaler's annual business to terminate the franchise agreement by paying "fair market value" except when the termination is for good cause. If the "fair market value" is disputed, an arbitration panel has jurisdiction to resolve the dispute.

Source: Developed by the LB&FC staff based on a review of selected state statutes.

Pennsylvania has also seen a change in the brewery industry in recent years. As shown on Exhibit 5, the number of breweries and brew pubs licensed (active) by the Commonwealth has grown significantly since 2001, and the number of distributors (active) has remained relatively stable. The number of importing distributors (active) has decreased by 20 percent over that same period, reportedly due to mergers.

Provisions of House Bill 2009-291 included language to allow termination without good cause in certain situations with fair market value payout and defined "good cause" for purposes of other termination. The bill allowed the manufacturer to terminate its primary distribution agreement by providing 180 days' notice to the distributor if the brands to be terminated represented 3 percent or less of the distributor's business and fair market value was paid to the distributor. The bill also provided for the agreement to be renegotiated in good faith every five years. As noted above, this bill was not enacted.

2. Need for reinstitution of tax credits to help the industry: Beginning in 1974, a Limited Tax Credit granted a limited tax subsidy for capital improvements made by small brewers for an "emergency period." The tax credit was extended through December 31, 2008.[10] Several states provide specific tax credit assistance to brewers,[11] but these credits do not relate to capital investment.

   As discussed in Chapter III, the final year of the tax credit was also the year with the highest investment in plant and equipment reported by the brewers responding to our survey (for the years included in the survey). See Chapter III for additional information.

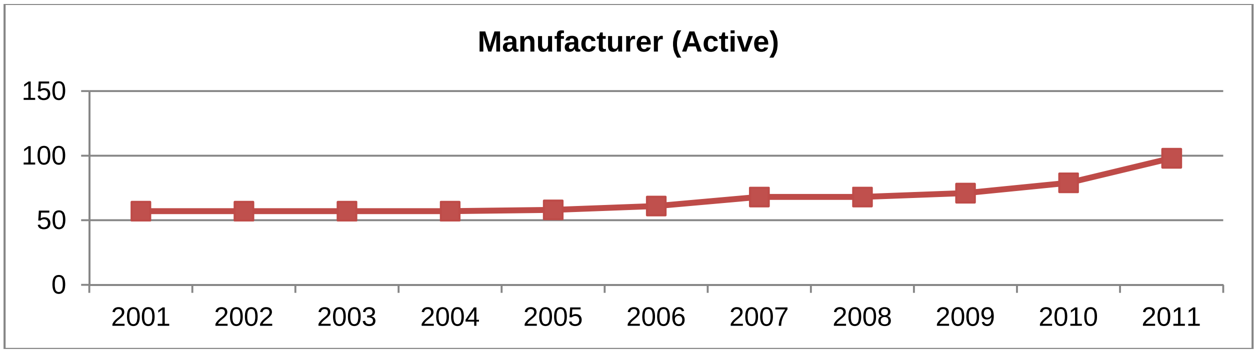
3. Package reform: Under the Liquor Code, distributors are restricted to selling by the case or in original packages of 128 ounces or more. Other retailers, restaurants, taverns, etc., are authorized to sell up to two six-packs (up to 192 ounces) at a time for off-premises consumption. Pennsylvania brewers, the majority of which are craft brewers, favor authorizing distributors to sell six-packs since it's more likely the distributor would carry a larger selection of craft brewery products than would other outlets.[12] The ability of distributors to sell six-packs would expand the opportunity for craft beer to be more readily available to consumers due to several factors:

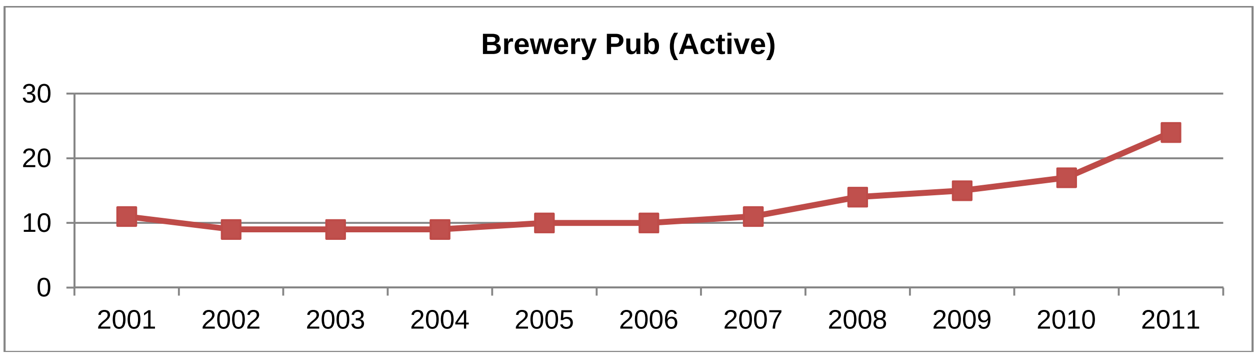
---

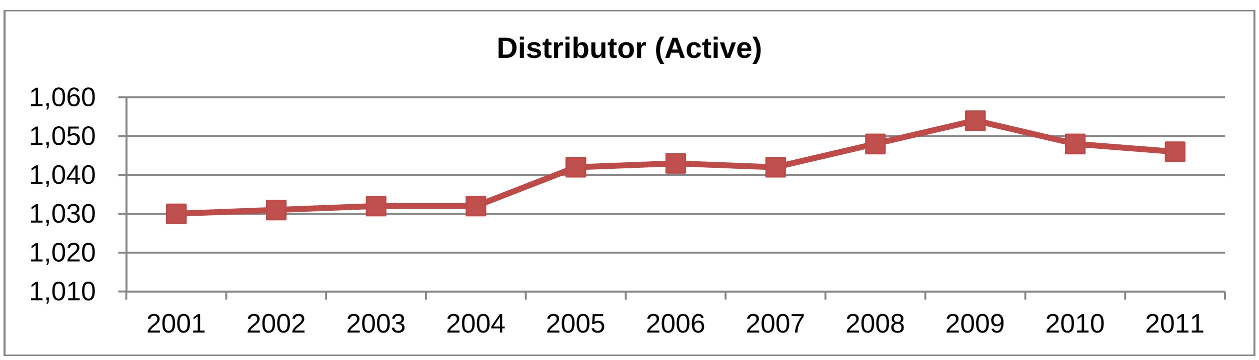
[10] See LB&FC report *Pennsylvania's Tax Credit Programs*, June 2010, for additional information (http://lbfc.legis.state.pa.us-Reports Released-Community and Economic Development).
[11] New York recently enacted a tax credit that will apply to tax years beginning on and after January 1, 2012.
[12] House Bill 2011-11 allowed distributors to sell six-packs and restaurants and taverns to sell up to 30-packs.

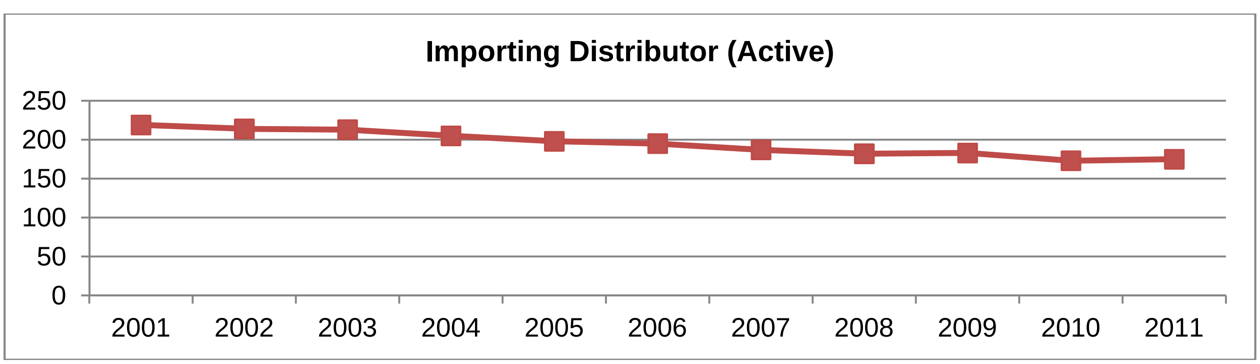
Exhibit 5

Malt and Brewed Beverage Licenses (Active)









Source: Developed by LB&FC staff from PLCB data.

craft beer is generally more expensive than mass-produced beer, therefore, the lower price on a six-pack versus a case would encourage a consumer to purchase the product; and, in general, distributors are able to carry a greater selection of beers than most retail licensees, giving the consumer additional craft beer selection. The proposal to allow the sale of 30-packs by restaurants and taverns would have little or no impact on the craft brewers as the craft brewers are not set up to package in this manner. Additionally, as already noted, the selection of beer available at most retailers is more limited than that at a distributor.

III. The Economic Impact of the Brewery Industry in Pennsylvania

The brewing industry is a dynamic part of the U.S. economy, accounting for about $223.8 billion in output or 1.5 percent of Gross Domestic Product (GDP). American and international brewers, along with their wholesale and retail partners, directly or indirectly employed approximately 1.84 million employees the U.S. in 2010. These workers earned almost $71.2 billion in wages and benefits. Members of the brewing industry and their employees paid $33.5 billion in direct federal, state, and local taxes. In addition, the consumption of beer throughout the country generated $5.3 billion in federal and state excise taxes, $4.9 billion in state sales taxes, and almost $682.2 million in other beer-specific local taxes.[1, 2]

Similarly, the malt beverage industry in Pennsylvania in 2010 included almost 60,000 jobs across all sectors of the economy. Members of the industry and their employees earned $2.2 billion in wages and benefits, and paid $491 million in federal taxes and $365 million in state and local taxes. The sales of beer in the Commonwealth generated an additional $156 million in federal and $187 million in state and local consumption taxes. These economic impacts calculated by the Beer Institute, however, include the sale of all malt beverages in the Commonwealth, not just those produced in Pennsylvania. We calculated the direct impact to the state of Pennsylvania from only product produced and sold in Pennsylvania using an agreed upon percentage of the Beer Institute numbers for the wholesaling and retailing tiers. Based on those calculations, we estimate that the direct economic impact of beer produced and sold in Pennsylvania is over 10,000 jobs, $296 million in wages, and $1.1 billion in output.

The information obtained by our survey of PA breweries is consistent with the Beer Institute's analysis of the overall malt beverage industry in Pennsylvania. Our survey of Pennsylvania's licensed breweries shows that as the number of breweries has increased over the past five years, capital investment in plant and equipment has grown 318 percent. From 2007 through 2011, investment and other expenditures by breweries totaled $782.4 million. Employment has grown 10 percent annually, with brewery payrolls increasing by 31 percent each year. With more facilities, more equipment, and more employees, production increased 19 percent from 2010 to 2011, and revenues are up 148 percent from 2007, or about 30 percent annually. Taxes and fees remitted to state and local governments have also shown a steady increase over the five years surveyed. State taxes alone have gone up 33 percent annually since 2007, while license fees collected by the Commonwealth from breweries and brew pubs have averaged $116,000 over the past three fiscal years.

---

[1] These figures do not include local sales taxes.
[2] John Dunham and Associates, *The Beer Institute Economic Contribution Study Methodology and Documentation*, June 2011.

Historic Overview of U.S. Brewing Industry

Brewing beer in America dates to the first communities established by English and Dutch settlers in the early- to mid-seventeenth century. A 1660 map of New Amsterdam shows 26 breweries and taverns operating at that time.[3] While there were many small breweries between this time period and the Civil War, it was not uncommon for households to brew their own beer. Several of America's founding fathers, including George Washington and Thomas Jefferson, were known for brewing their own beer.[4]

In 1810, the first year that statistics for the brewing industry were kept, America's 140 commercial breweries were producing just over 180,000 barrels of beer. Production continued to increase steadily over the next century, due to several factors including, for example, the industrial revolution, which allowed technological advances to be made in the manufacturing and refrigeration processes; higher wages, which allowed people to purchase more beer; pasteurization, which extended beer's shelf life; and the brewing of lager beer. It is reported that total beer production increased from 3.6 million barrels in 1865 to over 66 million barrels in 1914.[5]

During the next several years, while beer production and consumption continued to increase, temperance and Prohibition forces grew increasingly vocal and active. On January 29, 1919, their efforts resulted in the ratification of the Volstead Act, which made the production and distribution of any beverages with more than one-half of 1 percent alcohol illegal. During Prohibition, some brewers immediately divested themselves of all their brewing equipment, while other firms continued their business by manufacturing "near beer," a malt beverage with under one-half of 1 percent alcohol.[6] The Brewers Association[7] reports that more than 800 breweries across the nation closed during Prohibition. However, some of the breweries began producing root beer, ginger ale, and other soft drinks.

Prohibition continued until April 1933, when Congress amended the Volstead Act to allow for 3.2 percent beer. Eight months later, in December 1933, Congress and the states ratified the 21st Amendment officially repealing Prohibition. After this, several hundred locally oriented breweries reopened but were unable to regain their pre-Prohibition market because of a radically different industry environment.

---

[3] EH.Net Encyclopedia.

[4] Martin Stack, *A Concise History of America's Brewing Industry,* EH.Net Encyclopedia, ed. Robert Whaples, http://eh.net/encyclopedia/article/stack.brewing.industry.us (accessed 8/13/12).

[5] Ibid.

[6] Ibid.

[7] The Brewers Association is an organization of brewers made up of more than 1,500 U.S. brewery members and 34,000 members of the American Homebrewers Association. These persons are joined by members of the allied trade, beer wholesalers, individuals, other associate members, and the Brewers Association staff to make up the Brewers Association. The purpose of the Brewers Association is to promote and protect small and independent American brewers, their craft beers, and the community of brewing enthusiasts. The Association's home is in Colorado.

However, the post-repeal industry leaders—Anheuser-Busch and Pabst—doubled their annual production levels from 1935 to 1940. From the mid-1940s to 1980, the five largest breweries saw their share of the national market grow from 19 percent to 75 percent. Currently, the three largest breweries have approximately 80 percent of the national market.[8]

From 1980 to 2000, beer production continued to rise, reaching nearly 200 million barrels in 2000. Per capita consumption hit its highest level in 1981 at 23.8 gallons. In 2011, the Brewers Almanac showed per capita consumption at 20 gallons.

More recently, the production of craft beer has increased. Since 2000, entrepreneurs and beer enthusiasts have established hundreds of new breweries; most of them are very small, with annual production levels between 5,000 to 100,000 barrels. See Exhibit 6 for a definition and description of craft breweries. These craft brewers account for approximately 5 percent to 7 percent of the total American beer market. According to the Brewers Association, more than 95 percent of the approximately 2,000 breweries in the United States are small and independent craft brewers.

Craft breweries represent a new strategy in the brewing industry. Rather than competing on the basis of price or advertising, craft breweries compete on the basis of product characteristics. As such, they emphasize the freshness of locally produced beer, experiment with much stronger malt and hop flavors, and try new and long-discarded brewing recipes. See Exhibit 7 for historic beer production statistics.

Historic Overview of the Pennsylvania Brewery Industry

Brewing malt beverages in Pennsylvania dates back to at least 1663 when William Penn built a brewery near his home in Bucks County. In the years that followed, several commercial breweries were established in various locations throughout the Commonwealth. See Appendix D for a listing of some of these breweries. Many of these breweries changed ownership over the years. Some, of course, are out of business today, but others remain in operation. One of the most noted breweries in Pennsylvania is the D.G. Yuengling & Sons brewery, which was established in Pottsville in 1829. It continues to operate today and is known as "America's oldest brewery."

Altoona was home to nine breweries, two of which survived Prohibition: the Oswald Brewing Company, which went out of business in 1936, and the Altoona Brewing Company, which went out of business in 1974. The Pittsburgh area also

[8] Anheuser Busch (a wholly-owned subsidiary of Anheuser Busch InBev), SAB Miller, and Molson Coors. In 2007, SAB Miller and Molson Coors formed a joint venture in the U.S.—MillerCoors.

Exhibit 6

Description of Craft Breweries

An American craft brewer is small, independent, and traditional:

- **Small:** Annual production of 6 million barrels of beer or less. Beer production is attributed to a brewer according to the rules of alternating proprietorships.[a]
- **Independent:** Less than 25 percent of the craft brewery is owned or controlled (or equivalent economic interest) by an alcoholic beverage industry member who is not themselves a craft brewer.
- **Traditional:** A brewer who has either an all malt flagship (the beer that represents the greatest volume among that brewers brands) or has at least 50 percent of its volume in either all malt beers or in beers that use adjuncts to enhance rather than lighten flavor.

The following are some concepts related to craft beer and craft brewers:

- Craft brewers are small brewers.
- The hallmark of craft beer and craft brewers is innovation. Craft brewers interpret historic styles with unique twists and develop new styles that have no precedent.
- Craft beer is generally made with traditional ingredients like malted barley; interesting and some-times non-traditional ingredients are often added for distinctiveness.
- The majority of Americans live within ten miles of a craft brewer.

[a]Flavored malt beverages are not considered beer for purposes of this definition.

Source: Brewers Association.

Exhibit 7

Historical Beer Production in the United States

Year	Number of Barrels Produced Annually (Millions of Barrels)	Number of Breweries	Year	Number of Barrels Produced Annually (Millions of Barrels)	Number of Breweries
1865	3.7	2,252	1960.....	94.5	175
1875	9.5	2,783	1965.....	108.0	126
1885	19.2	2,230	1970.....	134.7	83
1895	33.6	1,771	1975.....	157.9	53
1905	49.5	1,847	1980.....	188.4	48
1915	59.8	1,345	1985.....	193.8	71
1935	45.2	766	1990.....	201.7	298
1940	54.9	684	1995[a] ...	199.2	1,006
1945	86.6	468	2000.....	199.1	1,493
1950.. ...	88.8	407	2005.....	197.2	1,579
1955	89.8	239	2010.....	194.2	1,793[b]

[a] In the years 1990 through 1994, the number of breweries grew each year: 1991=350; 1992=405; 1993=490; and 1994=634.
[b] This total includes 21 large non-craft breweries, 23 other non-craft breweries, and 1,749 craft breweries. In 2011, the number of craft breweries increased to 1,938.

Source: United States Brewers Association, the Beer Institute, and the Brewers Almanac - 2010.

has had many breweries over the years. One of the larger breweries, the Independent Brewing Company of Pittsburgh, was a combination of 15 breweries. After Prohibition, only five branches returned.

Harrisburg has been home to about 12 breweries throughout its history. Johnstown had sixteen breweries over the years with five in business at the time of Prohibition and only two continuing production after 1933. Reading has had around 20 breweries throughout its history.

In the 1880s, Philadelphia was known as "Brewerytown." During this time period, there were nearly 100 breweries in the city. Today, there are two production breweries and about five brew pubs in the Philadelphia area. Statewide, as of December 31, 2011, 103 breweries were licensed and active in Pennsylvania. See Exhibit 8 for a map showing the number of breweries in each county. As shown on the map, 34 counties have at least one brewery.

Economic Impact of the Malt Beverage Industry in the United States

The nationwide economic impact of the malt beverage industry is measured and reported by the Beer Institute bi-annually using the IMPLAN economic model to estimate the total—direct, indirect, and induced—economic impact.[9] IMPLAN, a proprietary model maintained by the Minnesota IMPLAN Group, is a widely used economic analysis model that uses average industry expenditure data. IMPLAN traces and calculates the multiple rounds of secondary indirect and induced economic impacts throughout the supply chain.

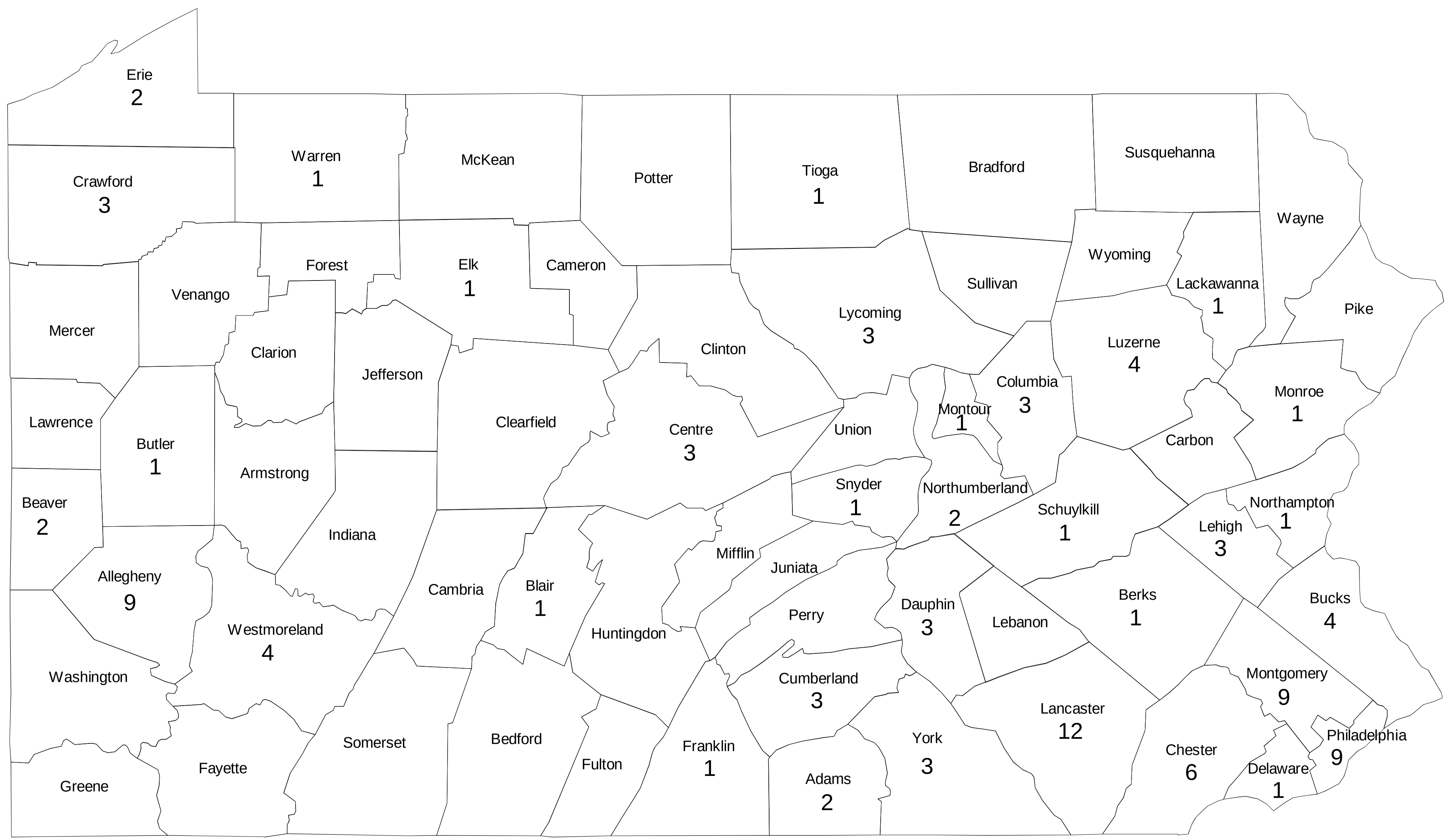
Whenever new industry activity or income is injected into an economy, it initiates a multiplier effect that creates an economic impact that is often larger than the initial input. The multiplier effect is generated when the recipients of the new income spend a percentage of that new income in the state; the subsequent recipients of that share, in turn, spend a share of it, and so on. The total spending impact of the new activity is the sum of these progressively smaller rounds of spending within the statewide economy. Three types of multipliers are used in IMPLAN:

- **Direct** – represents the impacts (e.g., employment or output changes) due to direct investments, including payments for goods and services, of the malt beverage industry. Expenditures directly on beer at either the retail or wholesale level constitute the direct impacts on the economy.
- **Indirect** – represents the impacts due to industry purchases from their suppliers brought about by changes in product demands. A given direct impact on the retail sector, for example, can be traced backward to the associated impact on the suppliers. Additionally, these suppliers'

[9] The Beer Institute is a leading source for research and information in the brewing industry. Working with brewers, suppliers, consultants, and others, the Beer Institute provides data and analyses on such matters as taxation, agricultural product supplies, domestic and export sales, trends in per capita consumption, and advertising expenditures, and various social indicators.

Exhibit 8

Number of Breweries in Pennsylvania, by County



Source: Developed by LB&FC staff from PLCB licensing information. This represents breweries licensed by the PLCB and active as of December 31, 2011.

suppliers, or the retailer's second-tier suppliers, will also be met with additional demand, and so on.

- **Induced** – represents the impacts on all local industries due to consumers' consumption expenditures arising from the new household incomes that are generated by the direct and indirect impacts. This would include the portion of employee wages and salaries spent in the local economy.

Total output, as typically used in impact analysis, refers to not only the value of final goods and services, but also the value of spending on intermediate goods and services. Thus, total impact is the sum of the direct impact and the multiple rounds of secondary indirect and induced impacts. IMPLAN uses this total impact to calculate subsequent impacts, such as total jobs created and tax generated and paid. This methodology, and the use of IMPLAN, is well established and consistent with other evaluations of industry impacts. Appendix B presents a brief overview of the methodology used by John Dunham and Associates to produce this report for the Beer Institute.

The industry impacts the economy by providing jobs for brewery employees, the sale of raw materials used in the brewing process, work for construction and manufacturing firms to build and equip breweries and brew pubs, and the use of transportation and warehousing firms to distribute the product. As noted above, the brewery industry contributed $223.8 billion in output, or 1.5 percent of GDP, to the nation in 2010. This included 1.84 million employees directly or indirectly employed, with these workers earning almost $71.2 billion in wages and benefits. Members of the brewing industry and their employees paid $33.5 billion in direct federal, state, and local taxes. In addition, $5.3 billion in federal and state excise taxes, $4.9 billion in state sales taxes, and almost $682.2 million in other beer-specific local taxes were generated.

Nationwide, the impact on the other tiers of the malt beverage system was also significant. Wholesalers provided 98,123 jobs paying out $7.4 billion in wages and the retail sector had 903,372 jobs paying almost $21 billion in wages. The indirect impact on agriculture, for example, is estimated by the Beer Institute as having resulted in 38,265 jobs in 2010, earning $534 million in wages.

Analysis of Economic Impact of the Pennsylvania Malt Beverage Industry

The nationwide economic impacts of the beer industry are mirrored in its impact on Pennsylvania's economy, adding to the state economy by producing economic output, supporting employment and labor income, and by generating tax revenue for governments at all levels.[10] Jobs in many sectors, including manufacturing, wholesale trade, retail trade, and services, can be directly attributed to the activities of the beer industry. Meanwhile, economic multiplier effects lead to further economic activity supported in almost every sector of the Pennsylvania economy.

[10] See Appendix E for selected studies of the economic impact of the brewery industry in other states.

In addition to the national statistics, the IMPLAN analysis also developed the industry's economic contribution to each state individually.[11] See Table 1. For 2010, the Beer Institute reported that Pennsylvania brewers employed an estimated 1,443 workers for the production of malt beverages at 78 different facilities earning just over $64 million in wages. The wholesale distribution tier employed another 4,271 Pennsylvanians at 332 locations, and 15,715 retail outlets used an additional 30,127 workers. The distribution and retail tiers combined for an additional $928 million in direct wages. The total direct wage impact for the industry in Pennsylvania was just under $1 billion (i.e., $991 million). As the employment numbers would suggest, beer sales at retail outlets, including restaurants, bars and taverns, grocery stores, and bottle shops, help support economic activity greater than that created by the brewing and distribution tiers alone.

Table 1

The 2010 Economic Impact of the Beer Industry on Pennsylvania

	Jobs	Wages	Output
Direct Economic Impact			
Brewing	1,443	$ 64,108,743	$ 532,012,580
Wholesaling	4,271	336,416,500	885,244,686
Retailing	30,127	591,099,206	1,530,234,020
Total	35,841	$ 991,624,450	$2,947,491,286
Indirect (Supplier) Economic Impact	Jobs	Wages	Output
Travel and Entertainment	2,193	$ 139,178,345	$ 292,287,781
Finance Insurance and Real Estate	1,208	67,930,035	252,971,442
Agriculture	1,059	15,279,758	77,026,643
Manufacturing General	1,012	68,064,886	445,422,724
Other Sectors	2,719	167,189,203	474,899,848
Total	8,191	$ 457,642,227	$1,542,608,438
Induced Economic Impact	Jobs	Wages	Output
Business and Personal Services	6,306	$ 288,908,876	$ 555,253,424
Retail	2,748	79,480,805	194,060,679
Travel and Entertainment	2,005	40,348,935	121,499,513
Finance Insurance and Real Estate	1,987	125,905,268	680,905,589
Other Sectors	2,917	195,396,157	898,044,632
Total	15,963	$ 730,040,041	$2,449,763,837
	Jobs	Wages	Output
Total Economic Impact	59,994	$2,179,306,718	$6,939,863,561

Source: Developed by LB&FC staff using Beer Institute data.

[11] The Beer Institute's numbers are based upon sales of all malt beverages, not just those beers brewed in Pennsylvania.

Of the $2.9 billion calculated for Pennsylvania's direct economic output, $532 million came from the brewers, $885 million from wholesalers, and $1.5 billion came from retailers. The supplier or indirect impact was another 8,191 employees earning $458 million in wages and $1.5 billion in output. The calculated induced impact from the malt beverage industry in Pennsylvania was $730 million in wages for 15,963 jobs and $2.5 billion in output.

Total impact on Pennsylvania was 59,994 jobs collecting $2.2 billion in wages and producing $6.9 billion in output. State and local taxes generated by these businesses were estimated to be $365 million. State and local consumption taxes paid were $187 million; $159 million primarily from sales taxes.

The economic impacts calculated by the Beer Institute are based on the sales of all malt beverages in the Commonwealth, including the sales of beers produced by breweries located outside of Pennsylvania. The direct impact to the state of Pennsylvania from only product produced and sold in PA was calculated using an estimate of the percentage of the Beer Institute numbers for the wholesaling and retailing tiers. As can be seen in Table 2, we estimate that the direct economic impact of beer produced and sold in Pennsylvania is over 10,000 jobs, $296 million in wages, and $1.1 billion in output.

Table 2

2010 Economic Impact of Beer Produced and Sold in Pennsylvania

Direct Economic Impact	Jobs	Wages	Output
Brewing	1,443	$ 64,108,743	$ 532,012,580
Wholesaling	1,068	84,104,125	221,311,172
Retailing	7,532	147,774,802	382,558,505
Total	10,043	$295,987,670	$1,135,882,257

Source: Developed by LB&FC staff using Beer Institute data.

To further determine the impacts derived from just the products manufactured and sold in Pennsylvania by licensed Pennsylvania breweries, our analysis also relied on information gathered from a survey distributed via e-mail and postal mail to the 103 active (as of December 31, 2011) licensed brewers and brew pubs in the Commonwealth. For additional detail regarding our survey methodology, see Appendix B.

Production

Total malt beverage production, as reported by the respondents to our questionnaire, was 4.3 million barrels in 2011. This represents a 19 percent increase over 2010's production of 3.6 million barrels. See Table 3. With the exception of a slight decline in 2010, brewery production in the Commonwealth increased each year from 2007 through 2011 (based on totals we calculated from the data provided by our questionnaire respondents). The Beer Institute analysis does not include a published figure for brewery production; however, the total number of barrels calculated using our questionnaire responses was deemed to be a reasonable estimate for the state by the economist at the Institute and is not far from the 3.7 million barrels the U.S. Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) reports for Pennsylvania in 2011.

Table 3

Selected PA Brewery Survey Totals

	2010	2011	Percent Change
Production (31-gallon barrels)	3,646,523	4,333,747	18.8%
Employees:			
Full-time	1,598	1,874	17.3%
Part-time	634	762	20.2%
Payroll (without benefits)	$41,830,469	$49,002,275	17.1%
Revenues[a]	$148,555,578	$177,756,080	19.7%
Taxes Paid (State and Local)[b]	$4,288,714	$4,913,333	14.6%
Capital Investment:			
Plant	$15,820,748	$13,321,834	-15.8%
Equipment	16,918,460	28,940,442	71.1
Total Capital Investment	$32,739,208	$42,262,276	29.1%
Other Expenditures[c]	$151,945,265	$165,481,217	8.9%

[a] 12 of 22 licensees responding for 2010 and 17 of 22 responding for 2011.
[b] MBT, CNIT, CSFT, PWIT, sales, and local property and privilege taxes.
[c] Other than payroll, capital investments, or taxes. This includes, e.g., utilities, materials, and contract labor.

Source: Developed by LB&FC staff using responses from LB&FC survey to breweries and brew pubs.

In discussions with the Beer Institute, we concluded that the six largest producers would give us a reasonable estimate of total statewide production, with additional production from all the other breweries not significantly increasing this total. The production of the six largest breweries increased 14 percent from 3,011,159 barrels in 2010 to 3,444,970 barrels in 2011. These totals were, in fact, 83 percent and 79 percent of the total production reported by our questionnaire respondents respectively.

Employment

The Beer Institute's analysis estimates that in 2010, breweries in the Commonwealth directly supported 1,443 jobs. This figure is slightly less than the 1,598 full-time employees reported by our questionnaire respondents for 2010.[12] These same breweries also reported that they had 1,874 full-time employees in 2011—a 17

[12] The Beer Institute analysis assumed 3 employees per brewing operation in those brew pubs when they were unable to obtain actual employment numbers.

percent increase. See Tables 2 and 3. Additionally, part-time employees numbered 634 in 2010 and 762 in 2011, an 8 percent increase. The top six producing breweries employed 37 percent and 34 percent of the questionnaire totals respectively.

The Beer Institute calculated a total payroll for the Commonwealth's breweries in 2010 to be $64.1 million. The $41.8 million reported by our questionnaire respondents is significantly less; however, one of the state's largest breweries did not provide us with its payroll. Assuming a payroll comparable to other Pennsylvania breweries of similar size, this one brewery could conservatively add $15 million in payroll expenses and increase our survey total to $57 million.

Benefits

Of the 22 breweries responding to our questionnaire, 16 (73 percent) reported providing health care for their employees; 14 (64 percent) provide dental care; 17 (77 percent) provide paid vacation; and 9 (41 percent) provide paid sick leave. Based on our survey data, it would appear that at least 98 percent of Pennsylvania's brewery employees are covered by health, dental, and paid vacation benefits. Five of the top six producers (one did not report its benefit package), provide health, dental, and vacation. All but one of these breweries also provide paid sick leave to their employees. The most common "other" benefit offered was vision care—although none of the top six producing breweries reported offering this benefit to their employees.

Investment in Plant and Equipment

We also sought information on the breweries' capital investment in both plant and equipment. As shown in Table 4, reported brewery plant investments totaled $15.8 million in 2010, decreasing 16 percent to $13.3 million in 2011. Investment in equipment by breweries increased 71 percent from $16.9 million in 2010 to $28.9 million in 2011. Overall, total investment in plant and equipment increased 29 percent from 2010 to 2011.

Table 4

Brewery Investments in Plant and Equipment

	2010	2011	Percent Change
Capital Investments:			
Plant	$ 15,820,748	$ 13,321,834	-16%
Equipment	16,918,460	28,940,442	71
Total Capital Investment	$ 32,739,208	$ 42,262,276	29%
Other Investment Expenditures [a]	$151,945,265	$165,481,217	9%

[a] Other than payroll, capital investments, or taxes. This includes, e.g., utilities, materials, and contract labor.

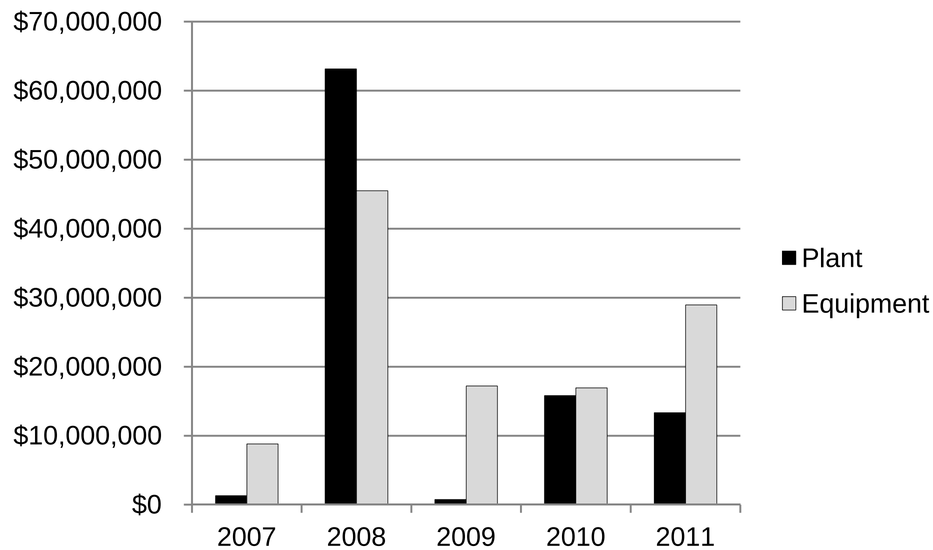
Source: Developed by LB&FC staff using responses from LB&FC survey to breweries and brew pubs.

The median value for plant investments was $60,000 in 2010 and $90,000 in 2011, an increase of 50 percent, with individual brewery outlays ranging from $748.00 to $15 million in 2010 and from $200.00 to $4 million in 2011. The median value of equipment investments increased significantly from $179,419 in 2010 to $556,469 in 2011, a 210 percent change.

As seen below in Exhibit 9, according to our survey responses, 2008 had the greatest total capital investment in physical plant, $63.2 million, and in equipment, $45.5 million. This was also the final year for the investment tax credit. See page 30 for further information on the tax credit.

Exhibit 9

Capital Investments by Breweries Over Time
2007 Through 2011



Source: Developed by LB&FC staff from survey data.

Plant investment reported by the top six breweries in 2010 totaled $17.7 million decreasing 63 percent to $6.6 million in 2011. Reported equipment purchases increased 61 percent from $12.8 million in 2010 to $20.6 million in 2011. However, the median values of both plant and equipment purchases decreased from 2010 to 2011 for the state's top six producing breweries.

The Other Expenditures category (i.e., not payroll, capital investments, or taxes) reported by the breweries totaled $165.5 million in 2011, an increase of 9 percent over 2010's total of $151.9 million. The Other Expenditures for the top six producing breweries were 84 and 86 percent of these questionnaire totals respectively. Other Expenditures for all of our questionnaire respondents increased annually for a total increase of 391 percent over the five-year period surveyed.

Tax and License Fee Collections[13]

The brewery industry directly impacts state revenues through the collection of business taxes and license fees. Revenues generated directly to the Commonwealth by the malt beverage industry through taxes and license fees collected averaged approximately $42 million annually in recent years.

Malt Beverage Tax

A malt beverage tax is levied on malt or brewed beverages manufactured and sold for use in Pennsylvania, or manufactured outside of Pennsylvania but sold for importation and use in Pennsylvania. The tax is borne by the consumer, but manufacturers, distributors, and importers remit the tax to the Commonwealth.

The tax rates are as follows:

1 barrel	$2.48	4 liter	$0.09
½ barrel	$1.24	1 gallon	$0.08
50 liter	$1.06	2 liter	$0.05
12 gallon	$0.96	40 ounce	$0.03
¼ barrel	$0.62	1 quart	$0.02
1/6 barrel	$0.42	25 ounce	$0.02
⅛ barrel	$0.32	1 pint	$0.01
160 ounce	$0.10	½ pint	$0.0066

These rates have remained unchanged since 1947. Prior to 1947, malt beverage tax rates were one-half the current rate.[14]

According to information provided by the Pennsylvania Department of Revenue, over the past five years, the malt beverage industry has contributed an average of $ 27.5 million in malt beverage taxes annually to the Commonwealth. This includes product produced out-of-state and imported and sold in Pennsylvania. Collections increased from 2007 through 2009, but have decreased each of the last two years. See Table 5.

---

[13] Allegheny and Philadelphia Counties have a By-the-Drink Tax. The Allegheny collections have averaged $30.6 million. The Philadelphia collections have averaged $42 million over the past three years. In each case, insufficient detail was available to separate malt beverage sales from the total tax collected on all alcoholic drinks. As such, we were also unable to identify the tax attributable solely to Pennsylvania-brewed beer.
[14] These tax rates vary widely nationally ranging from $1.07 per gallon in Alaska to $0.02 per gallon in Wyoming.

Table 5

Malt Beverage Tax Payments*
($000)

	Tax Years				
	2007	2008	2009	2010	2011
Distributors	$22,054.2	$24,198.7	$24,657.4	$21,307.5	$20,657.3
Breweries	3,680.2	3,399.8	3,505.6	3,447.2	3,436.3
Other[a]	727.6	898.6	1,603.2	1,991.7	1,461.9
Brew Pubs	30.3	26.9	111.8	121.0	141.2
Total[b]	$26,492.4	$28,524.1	$29,878.0	$26,867.3	$25,696.8

* Net of discounts, interest, and penalties.
[a] The other category represents companies that have differing industrial classification codes across databases used to produce this report.
[b] May not add due to rounding.

Source: Pennsylvania Department of Revenue.

Limited Tax Credit. From 1974 through 2008, certain manufacturers of malt or brewed beverages were permitted a credit for qualifying capital expenditures, defined as purchases of plant, machinery, or equipment for use in the Commonwealth. The annual credit per manufacturer was equal to the amount of qualifying capital expenditures in the reporting year or $200,000, whichever was less. This credit applied to purchases made through December 31, 2008. The credit was limited to taxpayers whose annual production of malt or brewed beverages did not exceed 1.5 million barrels.

Table 6 shows a summary, in aggregate, by calendar year, of those data elements required to be reported by the breweries. In 2004, 24 breweries took advantage of the tax credit. This number rose to 32 breweries for 2008, the last year the tax credit was available. Several states currently offer a tax credit to their breweries based on brewery production that is unrelated to capital improvement expenditures. See Exhibit 10.

Table 6

Limited Tax Credit History

	No. Breweries	Employees	Production	Average Production	Authorized Credit	Average Authorized Credit/Brewery	Tax Credit Used	Average Tax Credit Used/Brewery
2004	24	1,107	514,692	21,446	$ 499,464	$20,811	$486,958	$20,290
2005	24	1,258	1,348,541	56,189	1,038,351	43,265	570,946	23,789
2006	25	857	1,215,991	48,640	1,183,175	47,327	736,010	29,440
2007	31	1,213	441,318	14,236	1,324,068	42,712	815,114	26,294
2008	32	1,664	1,020,646	31,895	1,562,229	48,820	762,367	23,824

Source: Developed by the LB&FC staff with data provided by the Department of Revenue.

Exhibit 10

Tax Incentives for Breweries

State	Tax Amount	Credit Amount	Limitations
Alaska[f]	$1.07/gallon	Reduced rate of $0.35/gallon on first 60,000 barrels sold in state	
Illinois	$0.231/gallon	75 percent of tax imposed up to 4.9 million gallons per year	
Kentucky	$2.50/barrel	50% of the tax due	Up to 300,000 barrels per year
Michigan[a]	$6.30/barrel	$2.00/barrel	Up to 30,000 barrels per year
Minnesota[b]	$2.40/barrel of beer with not more than 3.2% alcohol by weight $4.60/barrel of beer with more than 3.2% alcohol by weight	$4.60 per barrel, up to the total annual tax liability	Up to 25,000 barrels per year regardless of alcohol content
Montana	Progressive tax per barrel on brewers who produce less than 20,000 barrels annually as follows: Up to 5,000 barrels - $1.30 5,001 to 10,000 barrels - $2.30 10,001 to 20,000 barrels - $3.30 Tax per barrel for brewers that produce 20,001 barrels or more - $4.30		
New Mexico	$0.41/gallon	Reduced tax rate of $0.08/gallon for a microbrewer that brews less than 5,000 barrels per year	
New York[c]	$0.14/gallon	$0.14/gallon 4.5 cents/gallon	For the first 500,000 gallons For the next 15.5 million gallons, up to 60 million gallons
Ohio	$5.58/barrel	Brewers who do not produce more than 31 million gallons annually are entitled to receive a tax credit on up to 9,300,000 gallons.	
Rhode Island[e]	$3.00/barrel	100% tax exemption	Up to the first 100,000 barrels
Washington	$1.30/barrel Plus $2.00/barrel Plus $4.78/barrel Plus $1.482/barrel Plus $15.50/barrel[g]	The additional tax of $4.78/barrel does not apply to the sale of the first 60,000 barrel each year by breweries that produce less than 2 million barrels per year. The additional tax of $1.482/barrel applies only to the first 60,000 barrels produced by breweries that produce less than 2 million barrels per year. The additional tax of $15.50/barrel is not applicable to the first 60,000 barrels produced by breweries that produce not more than 2 million barrels per year.	
Wisconsin[d]	$2.00/barrel	50% of the tax due	Up to 50,000 barrels per year

[a] To be eligible to claim the credit, the brewer may not produce more than 50,000 barrels a year.
[b] To be eligible, a brewer may not produce more than 100,000 barrels in the year immediately prior to the year for which the credit is claimed.
[c] Enacted on July 18, 2012, and applies to tax years beginning on or after January 1, 2012, and is applied to beer produced on or after April 1, 2012.
[d] To be eligible, a brewer may not produce more than 300,000 barrels per year.
[e] Brewer must be legal entity that has operated in state for at least 12 consecutive months.
[f] Reduced rate applicable to brewers who do not produce more than 2 million barrels annually.
[g] This additional tax is imposed for the time period June 1, 2010, through June 30, 2013.

Source: Developed by LB&FC staff based on each state's statute.

Several of the brewers noted this tax credit was an incentive to invest in their businesses. For example, one brewer, responding to our survey, commented on how these tax credits permit manufacturers to grow by allowing earned income to be dedicated to plant expansion and hiring when capital markets are constricted. As noted earlier, the last year of the tax credit was the year with the highest plant and equipment investment.

Corporation Taxes

Domestic (incorporated in Pennsylvania) and foreign (incorporated outside of Pennsylvania) corporations doing business in Pennsylvania are subject to corporate net income tax. In addition, Pennsylvania corporations must pay capital stock tax and foreign corporations must remit foreign franchise tax.

Corporate Net Income Tax. Domestic and foreign corporations are subject to the Corporate Net Income Tax (CNIT) for the privilege of doing business, carrying on activities, having capital or property employed or used in Pennsylvania, or owning property in Pennsylvania. Limited liability companies and business trusts that are classified as corporations for federal income tax purposes are also subject to tax.

In 1957, the tax was made permanent, and was later codified into the Tax Reform Code of 1971 (P.L. 6, No.2), as amended. The tax is levied on federal taxable income, without the federal net operating loss deduction and special deductions, and modified by certain additions and subtractions. The tax rate since January 1995 has been 9.99 percent. Table 7 shows the CNIT collected by the Department of Revenue for CYs 2007 through 2011. Collections averaged $6.4 million annually with wholesalers contributing the majority of CNIT for these entities. Those companies designated as Subchapter "S" corporations do not remit CNIT, but rather are taxed as personal income.[15]

Capital Stock and Foreign Franchise Taxes. These taxes are imposed on corporations with capital stock, joint-stock associations, limited liability companies, business trusts, and other companies doing business within Pennsylvania. Domestic corporations are subject to the capital stock tax while foreign corporations are subject to the foreign franchise tax on capital stock apportioned to Pennsylvania. The first $160,000 of capital stock value is exempt. These taxes were first enacted in 1840, and codified in the Tax Reform Code of 1971, as amended. Act 2009-48 retroactively froze the rate at 2.89 mills for tax year 2009. The rate remained 2.89 mills through 2011, after which a phase-out of 1 mill per year will continue until the tax is eliminated on January 1, 2014. The 2012 rate is 1.89 mills.

[15] A Subchapter S Corporation is a corporation whose profits and losses are taxed to its owners on their individual income tax returns instead of being taxed as a corporation. Subchapter S status allows a corporation the limited liability benefits of a corporation with the tax benefits of taxation at the personal tax rate.

Table 7

Corporate Net Income Tax
($000)

	2007	2008	2009	2010	2011
Breweries	$ 483	$ 945	$ 596	$ 697	$ 509
Beer and Ale Merchant Wholesalers	3,771	2,759	4,631	8,229	5,853
Other[a]	362	1,095	602	333	1,247
Grand Total	$4,615	$4,800	$5,828	$9,259	$7,609
Number of Companies Remitting Payments[b]	42	31	35	40	28

[a] The other category represents companies that have differing industrial classification codes across databases used to produce this report.
[b] Companies not remitting CNIT may be remitting Capital Stock and Foreign Franchise Tax or file personal income taxes if designated as a Subchapter S Corporation.

Source: PA Department of Revenue, as of April 13, 2012.

Table 8 shows the Capital Stock and Foreign Franchise Tax collected by the Department of Revenue for CYs 2007 through 2011. The tax collected averaged $1.8 million annually and, as with the CNIT, among the companies included in this table, wholesalers contributed the majority of the tax to the Commonwealth.

Table 8

Capital Stock and Foreign Franchise Tax
($000)

	2007	2008	2009	2010	2011
Breweries	$1,826	$ 49	$ 64	$ 132	$ 103
Beer and Ale Merchant Wholesalers	1,143	1,048	968	774	1,553
Other[a]	283	132	288	649	104
Grand Total	$3,252	$1,228	$1,319	$1,554	$1,760
Number of Companies Remitting Payments	107	111	102	101	106

[a] The other category represents companies that have differing industrial classification codes across databases used to produce this report.

Source: PA Department of Revenue, as of April 13, 2012.

Personal Income Tax (Withheld). Personal income tax is levied against the taxable income of residents and nonresident individuals, estates and trusts, partnerships, S corporations, business trusts, and limited liability companies that are not taxed as corporations for federal purposes. Employers withhold and remit employees' taxes on wages and salary income.

The income tax was first imposed at a rate of 2.30 percent in 1971. It has ranged from a low of 2.00 percent (1974) to the current rate of 3.07 percent. Table 9 shows the Personal Income Tax collected by the Department of Revenue for CYs 2007 through 2011 for the brewery industry. Personal Income Tax collections have trended upward over the past five years, averaging slightly less than $5.6 million each year.

Table 9

Personal Income Tax Withheld
($000)

	2007	2008	2009	2010	2011
Breweries	$ 800	$ 744	$ 782	$ 861	$ 881
Beer and Ale Merchant Wholesalers	3,076	3,170	3,208	3,436	3,249
Other[a]	1,108	1,541	1,726	1,727	1,629
Grand Total	$4,984	$5,455	$5,216	$6,023	$5,759
Number of Companies Remitting Payments	200	198	196	188	185

[a] The other category represents companies that have differing industrial classification codes across databases used to produce this report.

Source: PA Department of Revenue, as of April 13, 2012.

The summed total of the above collected corporate taxes for the malt beverage industry increased 18 percent from 2007 through 2011 and has averaged $13.8 million annually. The corporate tax total with the Malt Beverage Tax was $40.8 million in 2011, down 7 percent from 2010, but up 4 percent from the 2007 total of $39.3 million. The combined total of the above tax collections has averaged $41.3 million annually in revenues to Pennsylvania over the last five years.[16]

License Fees

According to the PLCB, there are four ways to obtain a license:

- **New License**. An applicant must apply to the Board's Bureau of Licensing for a new license. This may occur as a result of an opening in the quota, due to a legislative exception to the quota, or because there is no quota for the particular license.
- **Person-to-Person Transfer**. For a person-to-person transfer, an applicant must apply to have an existing license owned by another transferred to it for use at the same premises (change of ownership only).

[16] This includes taxes paid by breweries, wholesalers, and distributors and is not limited solely to products produced in Pennsylvania.

- **Place-to-Place Transfer**. For a place-to-place transfer, an applicant must apply to have an existing license that it holds transferred to a different location without changing its ownership.
- **Double Transfer**. For a double transfer (person-to-person and place-to-place), an applicant must apply to have an existing license transferred to it for use at a different location (change of ownership and location of license).

The number of licenses for the retail sale of malt or brewed beverages and liquor is generally limited to one license for each 3,000 inhabitants in any county, exclusive of licenses granted to public venues, etc.[17]

There is also a restriction on the number of distributor and/or importing distributor licenses that may be issued in any county. No new distributor or importing distributor license may be granted in any county where the combined number of distributor and importing distributor licenses exceeds one license for each 30,000 inhabitants of the county in which the license is to be issued, provided that a combined total of five such licenses may be granted in any county. Appendix F shows the fees required by the PLCB for the application, renewal, and transfer of the licenses needed by the malt beverage industry in Pennsylvania.

The PLCB reported that licensees remitted an average of just over $1 million in license fees from FY 2008-09 through FY 2010-11.[18] Collections dropped 14 percent from FY 2008-09 to FY 2009-10 and rebounded almost 14 percent from FY 2009-10 to FY 2010-11. See Table 10.

Table 10

License Fees Collected
($000)

	FY 2008-09	FY 2009-10	FY 2010-11
Distributors	$ 690.0	$597.8	$ 668.5
Importing Distributors	273.3	212.7	241.3
Brewers	103.0	105.1	130.7
Brew Pubs	2.4	2.5	3.0
Total	$1,068.6	$918.0	$1,043.5

Source: PLCB as of June 26, 2012.

[17] Performing arts facilities, continuing care retirement communities, airport restaurants, municipal golf courses, hotels, privately-owned public golf courses, racetracks, automobile racetracks, non-primary pari-mutual wagering locations, and national veterans' organizations. Club licenses are somewhat different in that they are not included in the quota but are subject to the quota. Once the quota is filled, no additional club licenses, except for incorporated units of national veterans' organizations, may be issued.
[18] We requested fees collected for the brewery, brew pub, importing distributor, and distributor licensing categories discussed in this report.

IV. The Impact of Breweries on Pennsylvania Tourism

In 2010, Pennsylvania hosted an estimated 179.2 million visitors, 62 percent of whom were residents of other states.[1] According to a 2012 economic impact report, visitor spending in Pennsylvania totaled $34.2 billion in 2010, with the total impact of the travel and tourism industry an estimated $35.9 billion, with capital investment, government spending, and personal consumption expenditures related to tourism included.[2] The significant impact of tourism in the state is also evident from the following statistics:

- Pennsylvania's tourism economy supported 452,340 jobs in total, representing 6.34 percent of total employment.
- Including indirect and induced impacts, tourism in Pennsylvania generated $3.6 billion in state and local taxes and $3.7 billion in federal taxes last year.
- The state's travel industry directly accounted for $13.4 billion of Pennsylvania's 2010 gross domestic product (GDP).

According to the Economic Impact Report, an estimated 56 million overnight leisure visitors spent $13.6 billion, or about $244 per visitor. Top spending categories included transportation, food and beverage, and lodging. An estimated 108 million day-trip leisure travelers visited in 2010, with total expenditures of $11.2 billion, or about $104 per traveler. Top spending categories include transportation, recreation, and food and beverages.

Tourist Visits to Pennsylvania Breweries

The Annual Traveler Profile Report focuses on "marketable" travelers which it defines as:[3]

> travelers destination for purely leisure purposes (i.e., non-business) and whose stay can be influenced by marketing (i.e., travel to a destination for purposes other than to visit friends and family).

Using this definition, the report shows an estimated 23 million marketable overnight travelers and 66 million marketable day-trip travelers in 2010. The main origin states for overnight travelers were Pennsylvania (38 percent), New Jersey and New York (each with 14 percent), Maryland and Ohio (each with 6 percent),

---

[1] *Pennsylvania's Annual Traveler Profile, 2010 Travel Year* (April 2012), Longwoods International.
[2] *The Economic Impact of Travel and Tourism in Pennsylvania, Tourism Satellite Account Calendar Year 2010* (February 2012), Tourism Economics (referred to as *Economic Impact Report*).
[3] *The Economic Impact Report* uses two categories of travelers: business and leisure. The *Annual Traveler Profile* further distinguishes travelers by business/leisure and visiting friends/relatives.

Virginia (4 percent), and Delaware and Florida (each with 2 percent). For day trips, the main origin states were Pennsylvania (51 percent), New Jersey (18 percent), Maryland (8 percent), New York and Ohio (each with 7 percent), Delaware (3 percent), and West Virginia and Virginia (each with 2 percent).

Surveys of the overnight marketable travelers indicated that in 2010, 3 percent had been to a brewery. Surveys of the marketable day-trip travelers indicated that 2 percent had been to a brewery. Using the expenditure per visitor calculation from the Economic Impact Report, we calculate that these visitors accounted for $305.6 million in travel expenditures in Pennsylvania in 2010. We recognize that travelers who visited a brewery may have also participated in other activities that may have influenced their decision to travel in Pennsylvania.

The Annual Traveler Profile Report also includes information on festivals that may include beer festivals. The survey did not seek detailed information on the type of festival attended. Since we cannot identify those responses referencing festivals which refer to "beer-related" festivals to attach a number for purposes of our calculation, we only used the "brewery visited" number in calculating the impact of breweries on tourism. However, we note the following factors which may further impact tourism numbers and affect the actual economic impact of breweries on tourism in Pennsylvania:

Nationwide Growth in Interest in Craft Beers. In 2009, the increasing popularity of craft brews was cited by CNN as turning some popular brewing towns into travel destinations. Specifically noted in the article were Portland, Oregon; San Diego, California; Ashville, North Carolina; and Atlanta, Georgia. The Philadelphia Business Journal reported in 2012 that, "State tourism boards and industry promoters have recently begun to see ale trails as a way to showcase regional craft brewing while encouraging visitors to stay in area hotels and eat at local restaurants." The article goes on to cite that Oregon has the Bend Ale Trail and Portland's North Coast Craft Beer Trail, and Colorado promotes the "Boulder and the Front Range Breweries, Brewpubs and Homebrew Shops." Also noted are Connecticut's Ale Trail, Montana's Brewery Trail, New York's Empire State Brewery Trails, Arizona's Flagstaff Ale Trail, and Virginia's Brew Ridge Trail.[4]

Pennsylvania Beer Festivals and Events. Numerous beer festivals and events are held throughout the Commonwealth. Recent examples include:

- The Susquehanna Ale Trail Passport Inaugural Event was held April 13-15 and 20-22, 2012, and featured seven breweries located in south central Pennsylvania. The $10 passport allowed participants to receive special tours, tastings, and promotions at the participating breweries. The event

[4] The article also mentions this approach in the United Kingdom with the Real Ale Trail and the Shropshire Cakes & Ale Trail.

was limited to 500 tickets total for both weekends. Initial numbers show that 350-400 people attended. The vast majority of participants, as indicated by on-line sales, were from the greater Harrisburg/Lancaster/ Lebanon/York regions with some from the Philadelphia and Baltimore regions, which was expected given a limited approach in numbers was taken in the first year. The York County Convention and Visitors Bureau (YCCVB) has indicated plans to repeat the passport event next year in an expanded manner, including a dedicated marketing and public relations budget. YCCVB staff anticipate a larger percentage of out-of-market visitors and plan to expand overnight package options with their lodging properties to increase this participation.

- Philly Beer Week is a 10-day celebration of the "Best Beer-Drinking City in America." Established in 2008, it's the largest beer celebration of its kind in America, featuring hundreds of festivals, dinners, tours, pub crawls, tastings, and meet-the-brewer nights at area bars, restaurants, and other locations throughout Greater Philadelphia. Since its inception, nearly 100 other cities worldwide have copied Philadelphia's success to launch their own beer weeks.

  Philly Beer Week highlights the region's diverse beer scene—its world-class breweries, neighborhood taverns, trend-setting restaurants, and rich beer culture and history. Philly Beer Week draws beer fans from throughout the region and beyond, making it one of Philadelphia's key annual tourism events.[5]

  Based on an attendee survey (conducted by the sponsors) of approximately 10 percent of the participants, it is estimated that 50,000 people attended the celebration, attending an average of 1.6 events and spending about $178 on beer and $150 on food and other items. The direct impact on the local economy was $16.4 million. This compares favorably with another of the largest festivals in the nation, the Great American Beer Festival in Denver, Colorado, that also draws approximately 50,000 attendees.[6, 7]

- The initial Dauphin County Beer Festival was held July 21, 2012, at Fort Hunter Park in Harrisburg. The event hosted a capacity crowd of 750 attendees (the maximum allowed by the breweries) with 500-600 of them having paid $35 in advance or $50 at the door. Although there were musical performances in addition to the beer, the focus of the festival was on the beer and the brewing process. Dauphin County Parks and Recreation staff contrasts this with the wine events held at Fort Hunter where they bring in national musical acts to supplement the wine tasting. A survey of those who purchased tickets online indicated that a large majority of

[5] From website for Philly Beer Week 2012.
[6] Yahoo Travel, Just in Time for Octoberfest: America's best beer festivals, September 6, 2012.
[7] At the 2012 Great American Beer Festival, several Pennsylvania breweries were awarded medals for their operations as well as for individual brews.

those attending were from the central Pennsylvania region; however, several attendees were from New York and New Jersey. A survey completed by 43 attendees showed attendees from Texas, Nevada, and Virginia.

- The Hops, Vines and Wines Selinsgrove Brew Festival was held July 21, 2012, in downtown Selinsgrove. Tickets were purchased by individuals as far north as Vermont and as far south as Florida. The majority of ticket purchasers were from Pennsylvania, but tickets were also purchased in Massachusetts, Connecticut, New York, New Jersey, Delaware, Maryland, Virginia, and Ohio. A total of 1,557 general admission tickets and 54 designated driver tickets were sold. Although area hotels were not surveyed regarding their use by festival goers, the organizers reported that a significant number of the attendees used the shuttle service to the hotels.

Charitable Events. The responses we received from the breweries to our questionnaire listed participation in multiple promotions throughout Pennsylvania, many of which were benefits for charities. Charitable and other community events reported by the 21 breweries responding to our questionnaire totaled approximately 300 unduplicated events.[8] These include events that benefited a specific charity, with the brewery donating product to the event. Both types of events would attract participants from the immediate area as well from outside the immediate area. The breweries responding to our questionnaire estimated approximately 170,000 attendees at these events.[9]

Brewery Tours. Due to the interest in craft breweries, brewery tours attract attention from tourists. One of the visitors' bureaus we contacted uses the photograph of a brew pub in its region as part of its brochure since it's an attractive location and conveys to visitors that there are places in the region with good food and good beer. Of the 22 breweries responding to our questionnaire, 12 offered tours of their breweries. In total, the breweries responding to our questionnaire reported approximately 74,000 participants in their tours in 2011, with an estimated 30 percent of them from out-of-state.

The Visit Pa website includes a three day itinerary with recommended visits to four breweries/brew pubs. The Department of Community and Economic Development does not maintain statistics on the number of visitors who may have used the "Hoppy Trails" suggested itinerary, so its direct impact on the number of visitors to the state, or from one area of the state to another, is unknown. The website also includes a listing of Pennsylvania breweries that offer tours. This listing is offered at no charge to the breweries.

---

[8] We could not determine in all cases the type of event listed; therefore, we are including all events in this category. These events may overlap the examples of festivals listed above.
[9] Not all responding breweries included estimates of attendees or a listing of specific events.

Success of Winery Tourism. Using the same calculation for winery visitors as we did for brewery visitors as reported in the Annual Traveler Profile Report, we found that in 2010 wineries accounted for approximately $386.8 million in tourist expenditures. As with breweries, the detail of the type of festivals travelers may have attended is not available. An Economic Impact Study of Pennsylvania Wine and Grapes reported that in 2007, an estimated 894,000 tourists visited Pennsylvania wineries but did not estimate the visitors' expenditures.[10] The report did not include information on the impact of wine festivals, but noted that "given that much of their sales are direct-to-consumer, smaller wineries have focused meaningful effort on enticing consumers to come and visit their facilities."[11] An advantage wineries may have is the overall experience they can offer to a tourist. A recent study of wine tourism in the Chautauqua-Lake Erie area, reported that visitors tended to consider their overall destination experience when rating a visit. The study pointed out that wine tourism "is a series of separately consumed activities delivered by disparate entities that lead to a holistic experience."[12] This includes the key stakeholders such as farmers, winery operators, and restaurateurs. Pennsylvania is the seventh largest U.S. wine producer with 11 designated wine trails. Breweries, however, could have similar success, and have, by working together to designate brewery trails and other attractions.

---

[10] The Economic Impact of Pennsylvania Wine and Grapes Update 2007 (Issued August 2009) MKF Research, LLC.
[11] Ibid p. 9.
[12] *An Experience Economy Approach to Enhancing Chautauqua-Lake Erie Are Wine Tourism*, Quadri-Felitti and Fiore (2012) p. 3.

V. Appendices

APPENDIX A

PRIOR PRINTER'S NOS. 1707, 1868 PRINTER'S NO. 1913

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE RESOLUTION

No. 216 Session of 2011

INTRODUCED BY ARGALL, SCARNATI, M. WHITE, WARD, McILHINNEY, ERICKSON, BROWNE, FARNESE, RAFFERTY, BOSCOLA, ALLOWAY, YUDICHAK, MENSCH AND FERLO, OCTOBER 24, 2011

AMENDED, JANUARY 24, 2012

A RESOLUTION

DIRECTING THE LEGISLATIVE BUDGET AND FINANCE COMMITTEE TO CONDUCT AN ECONOMIC IMPACT STUDY OF THE BREWERY INDUSTRY IN THIS COMMONWEALTH.

WHEREAS, PENNSYLVANIA HAS NUMEROUS BREWERIES LOCATED IN THIS COMMONWEALTH; AND

WHEREAS, THE BREWERY INDUSTRY IN PENNSYLVANIA HAS CONTRIBUTED TO THE ECONOMIC DEVELOPMENT OF THIS COMMONWEALTH; AND

WHEREAS, THE BREWERY INDUSTRY IN PENNSYLVANIA CONTRIBUTES TO PHILANTHROPIC AND CIVIC ENDEAVORS WITHIN COMMUNITIES OF THIS COMMONWEALTH; AND

WHEREAS, THE ACT OF APRIL 12, 1951 (P.L.90, NO.21), KNOWN AS THE LIQUOR CODE, PROVIDES THE STATUTORY FRAMEWORK FOR THE CONDUCT OF THE BREWERY INDUSTRY; AND

WHEREAS, THE BREWERY INDUSTRY IN PENNSYLVANIA, THE NATION AND INTERNATIONALLY HAS CHANGED SIGNIFICANTLY IN THE LAST 15 YEARS; AND

WHEREAS, THE CONTINUED GROWTH OF THE BREWERY INDUSTRY PROVIDES A SIGNIFICANT IMPACT TO THE ECONOMIC HEALTH OF THIS COMMONWEALTH; THEREFORE BE IT

Appendix A (Continued)

RESOLVED, THAT THE SENATE DIRECT THE LEGISLATIVE BUDGET AND FINANCE COMMITTEE TO CONDUCT AN ECONOMIC IMPACT STUDY OF THE BREWERY INDUSTRY; AND BE IT FURTHER

RESOLVED, THAT THE ECONOMIC IMPACT STUDY INCLUDE:

(1) AN EXPLANATION OF THE THREE-TIER MALT AND BREWED BEVERAGE SYSTEM ESTABLISHED IN THE LIQUOR CODE.

(2) THE CURRENT ECONOMIC IMPACT OF THE BREWERY INDUSTRY IN THIS COMMONWEALTH.

(3) THE IMPACT OF THE BREWERY INDUSTRY ON PENNSYLVANIA TOURISM.

(4) THE IMPACT OF THE BREWERY INDUSTRY ON OTHER INDUSTRIES LOCATED IN THIS COMMONWEALTH.

(5) THE IDENTIFICATION OF ANY LEGISLATIVE CHANGES, INCLUDING, BUT NOT LIMITED TO, CHANGES TO THE LIQUOR CODE AND THE ACT OF MARCH 4, 1971 (P.L.6, NO.2), KNOWN AS THE TAX REFORM CODE OF 1971, THAT WILL CONTINUE TO PROMOTE THE GROWTH OF THE BREWERY INDUSTRY IN THIS COMMONWEALTH;

AND BE IT FURTHER

RESOLVED, THAT THE COMMITTEE SUBMIT ITS STUDY TO THE SENATE NO LATER THAN ONE YEAR FROM ADOPTION OF THIS RESOLUTION.

APPENDIX B

Methodologies Used to Calculate Economic Impact

Beer Institute's Economic Impact Study Methodology

The study estimates the economic contributions made by the malt beverage industry to the U.S. economy in 2010 using standard econometric models. It measures the direct, indirect, and induced economic impacts. The data used came from industry sources, government publications, and Dun and Bradstreet, Inc. (D&B).

For purposes of this study, the beer industry is defined as those firms involved in the brewing, wholesaling, importing/exporting, and retailing of malt beverages including beer, malt liquor, and flavored malt beverage products; and measures the number of jobs in each of these sectors, the wages paid to employees, and the value added and total output of each. The study also includes an analysis of the economic activity generated by the beer industry in other industries through purchase or use of their products and services. The impact of "supplier firms," and the re-spending by employees of industry and supplier firms, is calculated using an input/output model.

The study estimates taxes paid by the industry and its employees and consumer taxes generated by the sale of malt beverage products. Federal taxes include the industry-specific excise tax, business and personal income taxes, FICA, unemployment insurance, and the Special Occupational Tax paid by brewers, wholesalers, and retailers. Direct wholesale state and local taxes primarily consist of state excise taxes and gross receipts taxes, where applicable. Direct retail taxes include state and local sales taxes, license fees, and applicable gross receipts taxes. Brewers, wholesalers, and retailers also pay real estate and personal property taxes, business income taxes, and other business levies that vary by state and municipality.[a]

The three tiers of the beer industry consist of brewing, wholesaling, and retailing.[b] The brewing process begins either with the purchase of agricultural products (e.g., barley, corn, rice, hops) from farmers and agricultural supply companies or with the importation of finished products. Brewers are categorized by annual output into three classes: major brewers producing in excess of two million barrels (e.g., Anheuser-Busch InBev, MillerCoors), regional brewers that produce less than two million barrels, and brew pubs and craft-brewers that produce beer for a limited market (sometimes just for their own retail establishment). Wholesalers are involved in the transportation of malt beverages from the brewers or a bonded warehouse operated by importers, and the storage of products for a limited period of time. Retailers directly sell to the consumer, and, in this analysis, consist of firms in the following industries: restaurants and taverns, retail stores, hotels, airlines, and amusement locales.

Analysis begins with a determination of direct employment using private and government data sources. Brewing includes company owned distribution operations, can production, and other supply operations, and beer importers. Wholesaling includes the network of beer distributors and related warehouse and transportation operations. Retailing includes locations where beer is consumed "on-premise," such as bars, restaurants, sports and entertainment venues, and airlines. "Off-premise" retail outlets are supermarkets, convenience stores, warehouse stores, and similar locations. Direct employment in each of the three tiers is estimated, due to data limitations in two ways: Brewing industry employment is based directly on D&B reported data as of September 2010 with member data from the Beer Institute merged with the D&B data to ensure that all member companies were covered in the analysis; and employment for large brewing operations was replaced where necessary with figures directly obtained from the companies themselves. In the case of brew pubs, industry employment is assumed to be three employees, reflecting only the brewing operations of what are essentially restaurants or taverns.

Appendix B (Continued)

Wholesale employment is based directly on data provided by D&B as of September 2010. This data is gathered at the facility level; therefore, a company with a brewery, warehouse, and sales office would have three separate employment counts. Member data from the National Beer Wholesalers Association (NBWA) was merged with the D&B data to ensure that all member facilities were covered in the analysis. Wholesalers distributing major malt beverage products (ABI, MillerCoors, etc.) were all assigned to beer wholesaling. For both the brewing and wholesaling sectors, if data was missing, industry median values were used.

Data on the retail sectors are all based on sales of malt beverages. These amounts are multiplied by either the malt beverage multipliers and output per employee ratios included in the IMPLAN model for the retail components of the industry in order to estimate total employment in each sector, or a calculation based on beer sales as a percentage of total alcohol sales. Retail data was adjusted to take into account dry communities and state regulations pertaining to beer sales in grocery and food stores.

Once the initial direct employment figures were established, they were entered in a model linked to the IMPLAN database. The IMPLAN data were used to generate estimates of direct wages and output in each of the three sectors. Wages are derived from the U.S. Department of Labor's ES-202 reports that are used by IMPLAN to provide annual average wage and salary establishment counts, employment counts, and payrolls. Since this data only covers payroll employees, it is modified to add information on independent workers, agricultural employees, construction employees, and certain government employees. Wage data include not only cash wages, but health and life insurance payments, retirement payments, and other non-cash compensation. It includes all income paid to workers.

Consumer expenditures for a product are not the sum total of the impact on the local economy as one economic activity always leads to a ripple effect benefitting other sectors and industries. Supplier firms produce and sell a broad range of items including ingredients for the production process, fuel, packaging materials, sales displays, or machinery. Supplier firms also provide a broad range of services including personnel services, financial services, advertising services, consulting services, or transportation services. A number of people are also employed by government entities responsible for the regulation of the malt beverage industry.

Once the direct impact of the industry has been calculated, the input-output methodology is used to calculate the contribution of the supplier sector and of the re-spending in the economy by employees in the industry and its suppliers. This inter-industry effect is assessed using multipliers from regional input-output modeling. This study used the most conservative estimate of the induced impact.

LB&FC Economic Impact Study Methodology

The LB&FC staff used information gathered from a survey distributed via e-mail and postal mail to the 103 active (as of Dec. 31, 2011) licensed brewers and brew pubs in the Commonwealth. The questions on the survey were developed by LB&FC staff with input from both the Beer Institute and from the Pennsylvania Brewers Association (PBA). The PBA also encouraged its members to participate in the survey and to fully cooperate with the study. We met with representatives of the wholesale and retail tiers, but did not survey the licensees within these tiers.

LB&FC received 22 responses from the questionnaires we sent out for a response rate of 21 percent. Fourteen of the responses were from breweries and eight responses were from brew pubs. Six of the seven largest producers in the state were among those breweries responding to the survey. The breweries that responded had been in business, on average, slightly more than 22 years and the length of service ranged from a low of just three months to a high of 183 years. One respondent reported operating as an alternating proprietorship for 2009 and 2010 and another respondent reported operating as a contract brewer for 100 percent of its production.

Appendix B (Continued)

We performed input analysis of the data in the survey responses to check for consistencies and found, for example, that for breweries of similar size, the barrels produced per employee were also comparable. LB&FC staff also asked follow-up questions of several individual respondents to clarify our understanding of the survey information they provided.

Tax collection data was obtained from the PA Department of Revenue. The Department extracted this information from their tax revenue databases using the designated NAICS[c] codes to isolate just those taxpaying entities in the malt beverage industry. For example, the NAICS code for breweries is 312120 and the code for ale and beer wholesalers/distributors is 424810.

LB&FC staff attempted to aggregate labor force numbers for all active licensed breweries in Pennsylvania from a Department of Labor & Industry database to compare to the employment figures we totaled from our questionnaire respondents and to the estimate from the Beer Industry report. However, the information in this database was primarily from 2009 and did not include many of the current licensees so we were unable to evaluate the relationship between these values.

We contacted the PA Department of Agriculture and the Pennsylvania Farm Bureau to obtain information regarding grain sales to the licensed breweries in Pennsylvania from Pennsylvania farmers, as well as the sale or transfer of spent grain (to be used as a feed supplement) from the brewers back to the farm communities. Data at this level of detail is not tracked and we were unable to estimate quantities using available information.

We worked with the PA Department of Revenue to calculate total malt beverage produced and sold in the Commonwealth using Malt Beverage Tax records. The total barrelage calculated was then compared to the summed production figures from our questionnaire and to 25 percent of the beer shipments reported by the U.S. Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB). Estimates using the tax records were less than the numbers reported by both the brewers and calculated from TTB shipment data. See below:

Production (Bbls.)	2010	2011
Sum of LB&FC Questionnaire Responses	3,646,523	4,333,747
Calculated by Revenue Using Tax Records.......	1,285,547	1,327,954
25 Percent of TTB Reported Shipments[d]	2,223,526	2,208,091

[a] The model used for the study also includes information on income received by the federal, state, and local governments, and produces estimates for the following: Federal Corporate Income, Payroll, Personal Income, Estate and Gift, and Excise taxes, Custom Duties; and Fines, Fees, etc. State and local tax revenues include estimates of corporate profits, property, sales, severance, estate and gift, and personal income; licenses and fees; and certain payroll taxes.
[b] All data on the number of establishments for the brewing and wholesale sector come from the D&B data augmented by data from the Beer Institute and the National Beer Wholesalers Association (NBWA). Establishment estimates for retail come from TDLinx, a division of ACNielson (US), Inc.
[c] The North American Industry Classification System (NAICS) is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. NAICS was developed under the auspices of the Office of Management and Budget (OMB), and adopted in 1997 to replace the Standard Industrial Classification (SIC) system.
[d] Pennsylvania shipments from 2011 and 2012 Brewer's Almanac.

Source: Developed by LB&FC staff using The Beer Institute Economic Contribution Study Methodology and Documentation, John Dunham and Associates, 2011.

APPENDIX C

Selected Bills Related to PA Breweries and Other Liquor Code Proposals Introduced in 2011-12

(As of November 30, 2012)

Breweries

Senate Bill 25: Requires purchasers of malt or brewed beverages in containers greater than 128 ounces to provide their name, address, and such other information as the PCLB may require to the distributor.

Senate Bill 275: Provides for tax credits for small brewers.

Senate Bill 640: Defines “case” to mean any configuration of original containers totaling 42 or more ounces, which may be broken down into a package of six or more original containers of at least seven ounces each.

Senate Bill 1194: Defines “case” to mean any configuration of original containers totaling 22 ounces or more.

Senate Bill 1424: Increases fees charged by the Board for licensing.

Senate Bill 1554: Provides for a wine and spirits retail license.

House Bill 260: Permits manufacturers, importing distributors, and distributors to sell malt or brewed beverages until 9 p.m. on Sundays; also permits the PLCB to have state stores open until 9 p.m. on Sunday.

House Bill 694: Provides that no importing distributor shall maintain a storage location unless the location is within the franchise territory; although two storage locations may be licensed, sales to the public may be made from only one location.

House Bill 2360: Provides for a nano-brewery license to be issued to breweries that produce no more than 150 barrels of malt or brewed beverage.

House Bill 2429: Provides for a special permit for breweries that produce less than 25,000 barrels per year to participate in malt or brewed beverages and food expositions off the licensed premises; also provides for permits to participate in farm markets.

House Bill 2582: Provides for a liquor and malt and brewed beverages tax in third class cities.

Wine

Senate Bill 790: Provides for the direct shipment of wine into the Commonwealth.

Senate Bill 886: Provides for the direct shipment of wine into the Commonwealth.

Senate Bill 1051: Provides for a farmers market permit to allow limited wineries to sell their products at farmers markets.

House Bill 11: Permits the sale of wine and spirits by qualified distributors and allows importing distributors and other qualified applicants to obtain a license to wholesale wine in the Commonwealth.

House Bill 110: Provides for the direct shipment of wine into the Commonwealth.

House Bill 430: Allows for the direct shipment of wine to Pennsylvania residents.

House Bill 845: Provides for the direct shipment of wine to certain consumers.

House Bill 1649: Provides for an enhanced distributor’s license and allows distributors to sell wine and spirits.

House Bill 1693: Provides for an enhanced distributor’s license and allows distributors to sell wine and spirits.

House Bill 1770: Provides for direct wine shippers.

House Bill 1933: Provides for an enhanced distributor’s license and allows distributors to sell wine and spirits.

Source: Developed by LB&FC staff from a review of legislation proposed in 2011-12.

APPENDIX D
Selected Historical Breweries in Pennsylvania

Pennsylvania Brewery	Location	Year Opened	Year Closed
Potts Ale Brewing/Smith Brewery/Schmidts	Philadelphia	1774	1920
Seitz Brewery	Easton	1821	1938
Bergner and Engel[a]	Philadelphia	1849	1920
Entress Brewing/Goenner Brewery	Johnstown	1850	1954
George Enzbrener's Empire Brewery/John Kazmaier's Germania Brewery/City Ice & Beverage Co./Altoona Brewing Co.	Altoona	1852	1974
Eagle Run Brewery/Fuhrmann & Schmidt/Ortlieb	Shamokin	1854	1975
Barnitz Brewery/Fink & Boyer/Fink's Keystone Brewery	Harrisburg	1854	1934
George C. Baer and Charles Stegmaier	Wilkes-Barre	1857	1974
Reichard and Weaver Brewery/Pennsylvania Central Brewing Company	Wilkes-Barre/Scranton	pre-1857	1920
Christian Schmidt[b]	Kensington/Philadelphia	1860	1987
Lykens Brewing Company	Lykens	1860	1940
Anderton Brewing/Independent Brewing Co. of Pittsburgh[c]	Beaver Falls	1869	1920
Ortlieb's Brewing[d]	Philadelphia	1869	1981
Hanover Brewing Company/Polish-Lithuanian Brewing Company/ Franklin Brewing Co.	Danville	1870	1915
Homestead Brewery	Pittsburgh	1876	1953
Koenig's Centennial Brewery/Harrisburg Consumers Brewing and Bottling Company/Graupners[e]	Harrisburg	1876	1951
Goundie Brewing/J. Widman and Company	Bethlehem	1880s	1938
Poth Brewery/Camden County Beverage Company[f]	Philadelphia	1880s	1963
F. A. Poth	Philadelphia	pre-1882	1941
Iron City Brewery	Pittsburgh	pre-1888	Still Operating
Iron City Brewing Company	Lebanon	1889	1934
Stocker and Roehrich's Brewery/August Schneider's Fairview Brewery/Mt. Penn Brewing Company	Reading	1891	1943
Samuel Jerzy's Perkiomen Valley Brewery	Green Lane	1892	1920
Punxsutawney Brewing Company	Punxsutawney	1893	1920
Susquehanna Brewing Company/Stegmaier Brewing Company	Wilkes-Barre	1895	1920
General Braddock Brewing Corporation	Pittsburgh	1898	1937
Northampton Brewing Company[g]	Northampton	1898	1950
DuBois Brewing Company	DuBois	1899	1973
Duquesne Brewery	Pittsburgh	1899	1972
Pittsburgh Brewing Company	Pittsburgh	1899	Still Operating
Stroudsburg Brewing Company/Neustadtl Brewing Corporation	Stroudsburg	1899	1937
Chartiers Valley Brewing Company/Independent Brewing Co. of Pittsburgh	Carnegie/Pittsburgh	1901	1952
First National Brewing	McKees Rocks	1901	1951
Elk Run Brewing Company	Punxsutawney	1902	1916
Independent Brewing Company	Pittsburgh	1904	
Franklin Brewing Company/Germania Brewing Company	Wilkes-Barre	1905	1915
Luzerne County Brewing Company/Lion Brewing Company/Lion Brewery Inc.	Wilkes-Barre	1905	Still Operating
Mutual Union Brewing Company	Aliquippa	1907	1920
Eureka Brewing Co./Stoney's Brewing Company	Smithton	1907	2002
Oswald Brewing Company	Altoona	pre-1919	1936
Weisbrod & Hess Brewer	Philadelphia	pre-1919	1939

[a] In 1878, this was the 3rd largest brewery in the U.S. In 1880, Bergner & Engel was producing 250,000 barrels annually. [b]The company operated breweries in Philadelphia, Norristown, and Cleveland. It is the first brewery in the country to use a computer. In 1979, it was the nation's 9th largest brewer, producing 3.86 million barrels annually. [c] In November 1869, Anderton's Brewing produced nine barrels of ale and porter. In 1879, the brewery was producing about 800 barrels annually. In 1895, the brewery expanded to a 25,000 barrels per year facility. [d] Ortlieb's was the second-to-last of Philadelphia's Prohibition survivors to go out of business when its brands were sold to Schmidt's. [e] Graupner's was Harrisburg's longest-lived brewery. [f] By the early 1900s, Poth was producing about 250,000 barrels annually. [g] Several years after Prohibition was repealed, in 1941 the company produced just under 100,000 barrels annually.

Source: http://ottospubandbrewery.com/about/beer-history/ (accessed 8/23/2012).

APPENDIX E

Studies of the Economic Impact of the Brewery Industry in Other States

Recent studies have been conducted in several states, including Texas, Colorado, and South Carolina. The methodologies for these studies involved the use of input-output modeling using data extracted from questionnaires. Below is a brief summary of these studies.

- **<u>Craft Brewers Industry Overview and Economic Impact</u>**;
  Business Research Division
  Leeds School of Business
  University of Colorado at Boulder
  Richard Wobbekind, Brian Lewandowski, Cidy DiPersio, Rachel Ford, and Ryan Streit. April 2012

  The study reported 130 craft brewers had a total economic impact in 2011 of $446 million, and $215 million in direct economic benefits. The breweries employed 4,170 workers and had a payroll of $102 million. The number one factor to encourage business expansion cited was lower taxes with access to capital ranking second as a current business inhibitor.

  The survey did not include the large national brewers in the state, just the craft brewers. IMPLAN was used to determine impacts. The study also reported $1.2 million in identifiable contributions to local communities.

- **<u>Economic Impact and Potential of the Texas Craft Brewing Industry</u>**
  Scott Metzger, Adjunct Professor of Economics, University of Texas – San Antonio,
  Executive Director, Texas Beer Freedom,
  Founder and CEO, Freetail Brewing Co.
  On behalf of the Texas Craft Brewers Guild.
  July 12, 2012 update.

  The study reported a total economic impact of $608 million in 2011, with $222 million in direct impact, 1,244 employees with $24.5 million in payroll, and $16 million in taxes. According to the study, the volume of craft brewing was up 46 percent in 2011.

  The data reported was based on survey responses from the Guild members. Texas has 78 small brewers including 37 packaging brewers and 41 brew pubs.

- **<u>The Economic Impacts of Breweries on Larimer County</u>**.
  Michael Marturana, Research Economist and
  Martin Shields, Professor, Colorado State University
  December 2011.

  As reported in the study in 2010, the six local breweries responding to the survey supported 938 direct jobs. Over a 10-year period, employment grew 22.1 percent for breweries while employment for the rest of county grew at 6.3 percent. The study reported a total economic impact on the county of $309.9 million in output, 2,488 jobs, and $141.9 million in payroll. The study used IMPLAN to determine economic impacts. Larimer County includes an Anheuser-Busch brewery. The survey did not include breweries identified by their NAICS code as a full-service restaurant.

- **The Economic Impact of the Beer Industry in South Carolina**.
  Moore School of Business, University of South Carolina,
  for the South Carolina Beer Association,
  March 2003.

  The study reported $1.6 billion in economic output annually. The beer industry supports 17,314 full-time jobs (direct and indirect) with labor income of $397.1 million annually. The study reported that the industry accounts for approximately $153.4 million in state tax revenue. This study includes an analysis of the impact of the state's excise tax on beer sales and focuses on distribution and retail, not brewing. The study used IMPLAN to determine economic impacts.

- **The Economic Contribution of Craft Brewing in Montana**
  Bureau of Business and Economic Research, University of Montana
  Colin B. Sorenson and Todd A. Morgan
  Prepared for the Montana Brewers Association
  October 2012.

  In this study, the Montana Brewers Association commissioned the Bureau of Business and Economic Research to determine what the craft brewing industry contributes to the Montana economy. A nine-question survey was administered in summer 2012 to all Montana brewers. Analysis of the data collected showed an employment impact of 434 jobs across various sectors of the state's economy. Additionally, the analysis also showed that there are significant impacts in the construction, health care, and retail trade sectors. Analysis attributes $48.4 million in private sector sales because of the brewing industry. Further, private non-farm compensation and government compensation are $9.8 million and $1.8 million higher, respectively, than they would be without the craft brewing industry in Montana. Finally, state government revenues are $1.5 million higher than they would be without the Montana craft brewing industry.

Source: Compiled by LB&FC staff.

APPENDIX F

Annual License Fees for Breweries

Brewery License:	
Application Filing Fee	$ 700
Renewal Filing Fee	30
License Fee	1,425
Transfer Fee:	
Person to Person	650
Place to Place	550
Double Transfer	700
Malt Beverage Distributor:	
Application Filing Fee	700
Renewal Filing Fee	30
License Fee	600
Transfer Fee:	
Person to Person	650
Place to Place	550
Double Transfer	700
Malt Beverage Importing Distributor:	
Application Filing Fee	700
Renewal Filing Fee	30
License Fee	1,350
Transfer Fee:	
Person to Person	650
Place to Place	550
Double Transfer	700
Transporter For Hire – Class A and C:	
Application Filing Fee	700
Renewal Filing Fee	30
License Fee	265
Transporter For Hire – Class B:	
Application Filing Fee	700
Renewal Filing Fee	30
License Fee	160
Malt or Brewed Beverage:	
Brand Registration Filing Fee Per Brand	75[a]

[a] Section 445 of the Liquor Code provides that up to 20 brands may be registered for a single annual fee of $150, so long as 100 barrels or less of each brand is produced on an annual basis.

Source: Administrative Code, §614-A.