

STONEBRIDGE

STRATEGIC SOLUTIONS FOR THE WINE INDUSTRY

Final Report

The Economic Impact of Santa Barbara's County's Wine and Grapes, 2013

Prepared for Santa Barbara County Vintners Association

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A STONEBRIDGE RESEARCH REPORT

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HIGHLIGHTS

FULL 2013 ECONOMIC IMPACT OF SANTA BARBARA COUNTY WINE AND GRAPES

\$1.7 Billion in Santa Barbara County

\$1.17 Billion in other California Counties

\$2 Billion Potential in Santa Barbara County with Expanded Wine Making Capacity

	IN SANTA BARBARA COUNTY	OTHER CALIFORNIA	TOTAL CALIFORNIA
Number of Licensed Santa Barbara County Wineries, 2013+	191	0	191
Winery Revenue from Santa Barbara County Wine,	\$271,482,280	\$286,223,280	\$557,705,560
Cases of Wine Produced from Santa Barbara County Grapes, 2013	2,778,191	2,177,815	4,956,006
Total US Retail Value of Wine Produced from Santa Barbara County Grapes, 2013 (includes direct to consumer sales and exports)			\$844,735,105
Total Bearing Vineyard Acreage for Santa Barbara County Wine	20,962	0	20,962
Total Planted Vineyard Acreage for Santa Barbara County Wine	27,155	0	27,155
Santa Barbara County Wine Grape Crop Size 2013	87,411	0	87,411
Value of Santa Barbara County Wine Grape Crop	\$163,362,417	\$0	\$163,362,417
Full-time Equivalent Jobs Related to Santa Barbara County wine	9,158	2,214	11,372
Wages Paid related to Santa Barbara County wine	\$543,956,735	\$118,665,327	\$662,622,062
Wine Related Santa Barbara County Tourism Expenditures	\$205.4 million	0	\$205.4 million
Number of Winery Visitors in Santa Barbara County	860,000	0	860,000
State and Local Taxes Generated by Wine Related Activities in Santa Barbara County	\$93,620,561	\$25,808,501	\$119,429,062
Federal Taxes Generated by Wine Related Activities in Santa Barbara County	\$101,721,319	\$30,946,084	\$132,667,403
Charitable Contributions in Santa Barbara County from Santa Barbara County wine and grape	\$2.4 million	0	\$2.4 million

Source: Stonebridge Research, Santa Barbara County Agricultural Commissioner, IMPLAN, US Bureau of Labor Statistics, industry interviews. + Winery number from TTB. We do not attempt to estimate the number of out of county wineries making wine from Santa Barbara County grapes. † Does not include any out-of-county charitable contributions. * Only in-Santa Barbara County tourism expenditures are included although there may be additional out-of-county related expenditures, such as travel agents, airfares, etc. We did not attempt to identify tourism generated by Santa Barbara County wine among out-of-county wineries.

Table of Contents

Methodology.....	4
Executive Summary	7
Part One: Economic Impact of Santa Barbara County Wine and Grapes at the Current Levels of Winemaking	8
Part Two: The Economic Impact in Other California Counties of Making Wine from Santa Barbara County Grapes	17
Part Three: What if Santa Barbara County Winemaking Was Allowed to Grow? ...	21
Part Four: Conclusions and Observations	24

Methodology

A Note on the Data

Each time we do these studies we need to stress that there is hardly any public or standardized data on this complex industry. Fortunately, Santa Barbara County's Agricultural Commissioner and her department were wonderfully cooperative in providing detailed data on Santa Barbara's grape production, acreage, and sales. County-level wine sales production and sales volume indicators (e.g. tax paid removals from bond) can be obtained, as special requests, from the Alcohol and Tobacco Tax and Trade Bureau (TTB) of the US Department of the Treasury. However, no official entity reports wine sales *values*, nor does any published source except InfoScan data, which only reports on grocery/chain store sales. Such sales represent the lower 30% of the wine sales market, excludes on-premise sales, specialty wine and liquor stores and the 14 states where wine cannot be sold in the grocery channel and thus has little relevance for Santa Barbara County wines. Similarly, revenue data is not available from any published source.

Winery numbers can be obtained from both state (California ABC) and Federal sources (TTB) -- but these numbers seldom agree, due to timing differences in permit approvals and cancellations and different license categories at state and federal level. No region can provide specific vineyard counts, as vineyards are often held in multiple parcels for private tax reasons. However, county officials graciously helped us identify bearing and non-bearing vineyard acreage by wine region.

Employment and wage data by county is available for certain industry categories from the US Department of Labor Bureau of Labor Statistics. Fortunately, wineries and vineyards are specific categories for such data -- but most supplier industries and services (e.g. cooperages, bottles, closures, capsules, tanks for wine, wine laboratories) are buried in broader categories such as "glass containers" or "wood processing." Moreover, even for specified categories, these data only cover employees eligible for unemployment insurance, thus excluding owner-operators, contract and part-time workers.

Thus, these studies depend on diligent primary research: multiple industry interviews combined with searches of multiple sources for pieces of information that can be assembled to substantiate an estimate. To provide a metric for the effort, we tracked employment, revenues, and wages for approximately 72 business activities at the county and state level for this study, with phone calls, emails, and meetings in addition to more conventional data and document searches. Much of this process is explained below but please understand that these findings are best available estimates.

What is Economic Impact?

The best way to understand an economic impact analysis is to see it as the answer to the question: what would we lose if this industry disappeared tomorrow? Intuitively, we all know that the answer to that question is far more than the industry's sales. The most important losses would be all the jobs and the regional tax revenues lost; the business for the restaurant where the workers ate lunch and the car dealers who sold them cars; the office supply stores where the companies bought printers and papers, and the sales and business and other taxes paid by all those businesses. An economic impact study is essentially a way to put numbers to those losses.

To produce this assessment, Stonebridge Research Group LLC explored and developed metrics for the multiple components of this very complex industry: from wine grape growing and winemaking to the many allied industries involved in wine production and consumption, grape cultivation and allied industries - distribution, tourism, equipment, and suppliers, including professional services. Other economic benefits, including tax revenues, financing, charitable contributions and other indirect and induced benefits generated by the wine industry are also summarized.

What is Different About this Study?

This project examines several questions unique to Santa Barbara County. **We consider all grapes grown in Santa Barbara County, including those processed into wine and sold in the county and those shipped out of the county after harvest.** After estimating the current economic impact in the county of Santa Barbara's wine and grapes, we assess **the impact on the county's economy of a enabling winery expansion and new development that would be needed to retain in the county and make into wine just 20% of the grapes now shipped out of county.**

Methodological Controversy

Consultation with multiple leaders in business economics and with the IMPLAN staff confirmed the approach used by Stonebridge Research in this and similar projects: to customize the basic IMPLAN input-output model to incorporate comprehensive details about wine industry suppliers, sales channels and visitors. This approach recognizes that the basic IMPLAN model does not, and cannot, incorporate the details of such smaller industries, beyond the data available from the US Bureau of Economic Analysis. This information, when examined, only considers wine grape production and trucking, a very small part of the operations of this very complex industry. Please contact Stonebridge Research for further information on this issue.

Direct, Indirect and Induced Effects (IMPLAN)

Much like dropping a rock into a pond, the wine industry has ripple effects on the Santa Barbara County, California and US economies. Economic impact studies estimate the impact of an industry in a defined geographical area by identifying and measuring specific concrete economic "events." The events tracked in this report are jobs by industry code.

IMPLAN is the acronym for "**IM** impact analysis for **PLAN**ing." **IMPLAN** is a well established and widely used economic model that uses input-output analyses and tables for over 500 industries to estimate regional and industry-specific economic impacts of a specific industry. The IMPLAN model and its structure are updated annually to reflect changes in the US economy, in wages, in productivity assumptions, and in regional economic structures.

The IMPLAN model and methodology classifies these effects into three categories, as defined below: Direct Effects, Indirect Effects, and Induced Effects.

Direct Effects

Direct effects are economic changes in industries **directly** associated with the product's final demand. Thus, direct effects in this case consider the direct employment and spending of wineries, vineyards,

distributors, and immediately allied industries, data on which Stonebridge Research Group LLC collected through primary research.

Indirect Effects

Indirect effects are economic changes - income created through job creation - in industries that supply goods and services to the directly affected industries noted above. Examples of industry effects are purchases of electricity and gasoline by wineries or of janitorial services by wine bottle manufacturers. These may also be defined as “secondary economic exchanges.”

Induced Effects

Induced effects are the effects of these new workers spending their new incomes, creating a still further flow of income in their communities and a flow of new jobs and services.

Examples are spending in grocery and retail stores, medical offices, insurance companies, internet providers, and other non-wine related industries by workers in industries allied to the wine industry - such as the spending by the janitor working under contract to the wine industry supplier. These tertiary exchanges induce more jobs and incomes throughout the state and the nation, based on the original economic flows from the Santa Barbara County wine industry.

Thus, the full economic impact of Santa Barbara County related wine, as shown in Table 15, combines the Santa Barbara County wine and grape industry’s direct, indirect, and induced economic effects as measured by the application of the IMPLAN model to the employment data presented in Table 9 of this report.

Taxes

The IMPLAN model estimates all non-industry-specific taxes generated at federal, state, and local levels by the jobs produced by the industry in the respective geographical area. Stonebridge added to these estimates industry specific taxes including federal and state alcohol excise taxes, consumer direct sales taxes, and assessments paid by the industry, because these amounts are not included in the IMPLAN results.

Measuring the Full Economic Impact of Santa Barbara County Wine and Grape Production

Santa Barbara County’s wine and grape industry has a “multiplier” effect, extending across a broad network of economic benefits. The revenue generated by the wine industry becomes income for other workers and firms in the county, to spend on other goods and services.

Executive Summary

This assessment of the economic impact of Santa Barbara County wine and grapes is presented in three parts:

- In Part One of this report, we estimate the impact of all the wine grown in Santa Barbara County, not just wine produced in the county, to allow full appreciation of the impact of Santa Barbara County's wine growing on the County's economy.

In 2013 wine grown in Santa Barbara County and its related services and suppliers, had a total economic impact of more than \$1.7 billion on Santa Barbara County's economy, as detailed in Table 16 below.

Santa Barbara County grapes and the wine produced with them, whether in Santa Barbara County or elsewhere in California, and their allied industries, directly and indirectly, provided more than **9,000 full-time equivalent jobs** in Santa Barbara County, accounting for 4.5% of all the full time jobs reported in the county in 2013.

Activities related to Santa Barbara County wine within Santa Barbara County generated more than \$93 million in revenues for local (county, city) governments and the State of California and more than \$101 million in Federal revenues in 2013, as detailed in Table 10 below.

- In **Part Two** of this report, we assess the value that is generated in other parts of California by the grapes that are shipped out of the county for processing into wine and the storage, shipping and sale of that wine. In other words, we estimate the economic benefits that is transferred from Santa Barbara County to other parts of the state by shipping Santa Barbara County grapes elsewhere for winemaking.

The total economic impact of making wine in counties other than Santa Barbara of making wine from Santa Barbara grapes is estimated at more than \$1.17 billion. In other words, Santa Barbara County is transferring nearly \$1.2 billion of value, along with more than 2,200 jobs and nearly \$25.8 million in state and local tax revenues to other locations when it ships wine grapes out of the county, as shown in Tables 11, 12 and 13 below.

Santa Barbara County exports to other counties much of the benefit of its grape growing achievements, a practice which depresses the value of its grapes and vineyards and costs the county in jobs and tax revenues.

- In **Part Three** of the study, we estimate the potential economic benefit to Santa Barbara County of reducing this outflow of grapes by just 20%, by enabling a related expansion in wine making capacity in the county.

In 2013, shifting just 20% of the grapes now processed elsewhere back to Santa Barbara County for winemaking would have increased the economic benefits to Santa Barbara County by \$300 million, as shown in Table 16 below, creating 1,205 jobs and adding \$13.8 million to state and local tax revenues, as shown in Tables 14, 15 and 16 below.

Part One: Economic Impact of Santa Barbara County Wine and Grapes at the Current Levels of Winemaking

Santa Barbara County has long been recognized as one of California's finest wine producing regions, although producing less than 2.1% of California's wine grapes. Santa Barbara County accounts for less than 1% — .51% to be exact — of the volume of all the wine sold in the state but 2.1% of the *value* of California's wine, as seen in Table 1 below.

Table 1: Santa Barbara County Related Wine's Share of US and California Wine Sales

		% of All Wine Sold in US	% of CA Wine Sold in US
Total Sales of Wine in US, Cases, 2013	372.8 million	100.0%	
Retail Value of Total Sales of Wine in US, 2013	\$36.3 billion	100.0%	
Total California Wine Sold in US, Cases, 2013	215.4 million	57.2%	100.0%
Value of Total California Wine Sold in US, 2013	\$23.1 billion	63.6%	100.0%
Total Santa Barbara County Related Wine Sold in US, Cases, 2013	4 million	1.1%	1.9%
Retail Value of all Santa Barbara County Related Wine Sold in US, 2013	\$845 million	2.3%	3.7%
Wine Removed from Bond in Santa Barbara County, Cases, 2013	1.13 million	0.3%	0.5%
Retail Value of Wine Removed from Bond in Santa Barbara, 2013	\$481 million	1.3%	2.1%

Source: Wine Institute, TTB, Stonebridge Research

Defining Santa Barbara County Wine

As we know, a large share of the wine grapes (or bulk juice from these wine grapes) produced in Santa Barbara County are shipped outside of the county to be processed into wine.

Two official data reports illustrate this shift in wine production.

Santa Barbara's Agricultural Commission's annual Crop Reports include totals for annual wine grape production, yields, bearing acreage and average prices in the County. (Since Santa Barbara County is part of a multi-county district for the Grape Crush Reports produced by the National Agricultural Statistics Service for CFDA, the county Crop Reports are the only official source of wine grape production data for the county.)

Table 2: Santa Barbara County Crop Reports: Winegrape Production

	2011	2012	2013	2014
Wine Grape Production (Tons)	60,077	66,843	87,411	90,553
Gallon Equivalent	9,011,550	10,026,450	13,111,650	13,582,950

Source: Santa Barbara Agriculture Commissioner Crop Reports 2012-2015

The Alcohol and Tobacco Tax and Trade Bureau (TTB) of the US Department of the Treasury provided, in response to a special request, the following data on total volume of wine produced, bottled and tax-paid wine removed from bond in Santa Barbara County for 2013 and 2014. Tax-paid wine removed from bond is a reasonable indicator of wine sales (although it excludes exports, which are not subject to excise tax.) The gap between total wine bottled and total wine removed from bond in the year reflects in part the volume of Santa Barbara County wine stored in bonded warehouses in neighboring counties, particularly San Luis Obispo, but also as far as Sonoma and Napa.

Table 3: TTB Report on Wine Produced, Bottled and Removed from Bond in Santa Barbara County (gallons)

	2012	2013	2014
Wine Produced	5,320,161	6,608,154	5,756,894
Wine Bottled	3,341,591	3,971,244	4,412,801
Wine Removed from Bond	2,584,315	2,685,204	3,182,093

Source: Alcohol and Tobacco Tax and Trade Bureau (TTB) of the US Department of the Treasury

On this basis, we concluded the following about where Santa Barbara's 2013 wine grapes were processed:

Table 4: Winegrapes Produced in Santa Barbara

	Tons	Potential Case Equivalent	%
Grapes Grown Santa Barbara County, 2012-2013	87,411	5,506,893	
Grapes Grown in Santa Barbara County but Sent Outside the County for Processing, 2013	43,367	2,732,121	49.61%
Santa Barbara County Grapes Processed in Santa Barbara, 2013	44,044	2,774,772	50.39%

Source: TTB, Santa Barbara County Agricultural Commissioner, Stonebridge Research and Industry Interviews

To reconcile these reports and estimate how much wine was actually produced in the County (Table 5), we needed some fairly broad, but hopefully not completely unreasonable, assumptions, given the limitations of the information.

- Red wines removed from bond in 2013 were harvested in 2011; red wines sold in 2014 were produced in 2013¹.
- White wines available for sale in 2013 were harvested in 2012 and fermented in 2013.
- To estimate the shares of red and white wines in total production we were forced to use the 2014 breakdown, since that was the first year in which the Santa Barbara Crop Report reported production by grape variety. That ratio, 57% white wine and 43% red wine, was applied to all production, bottling and sales data for each of these years.

Table 5: Wine from Santa Barbara Grapes Produced and Removed from Bond in 2013

	9L Cases
Wine Produced in Santa Barbara County from Santa Barbara grapes	2,778,191
Wine Produced outside Santa Barbara County from Santa Barbara grapes	2,177,815
Total Wine Produced from Santa Barbara County Grapes in 2013	4,956,006
Wine from Santa Barbara County Grapes Removed from Bond in 2013 in Santa Barbara County	1,129,186
Wine from Santa Barbara County Grapes Removed from Bond in 2013 outside of Santa Barbara County	2,894,294
Total Wine from Santa Barbara County Grapes Removed from Bond in 2013	4,023,480

Source: TTB, Santa Barbara County Agricultural Commissioner, Stonebridge Research and Industry Interviews

The disparity between Santa Barbara County’s wine grape and wine share of California wine production and sales indicates the extent to which Santa Barbara County’s wine grapes and bulk juice are transported to other counties in California to be made into wine.

- Nearly 2.8 million cases of Santa Barbara County wine were produced in Santa Barbara County in 2013 — but nearly 2.2 million cases of Santa Barbara County wine were produced by wineries outside the county in 2013
- More than one million cases of Santa Barbara County wine were sold (“removed from bond”) in the county in 2013 — but more than 2.9 million cases of Santa Barbara County wine were sold from wineries outside of the county in 2013.

Overall, nearly three quarters of Santa Barbara County grapes traveled outside of the county for fermenting, bottling, storage or other services in 2013.

¹ Of course, wine may be bottled in a different year than that in which it is fermented and, especially red wine, may age for several years and sold over several years. Ideally, this table should be quite a bit more complex but it does provide some perspective on the flow of Santa Barbara County wine in and out of county. Note: “production,” in TTB terms, refers to fermentation.

VALUE OF SANTA BARBARA COUNTY GRAPES

Santa Barbara County's grape prices, while improving, remain well below the prices obtained for comparable grapes in Sonoma, the principle other region in which these varieties are produced, as shown in Table 6 below. Prices for Santa Barbara County Pinot Noir grapes have benefited from the general growth in demand for Pinot Noir.

Table 6: Wine Grape Prices, 2014

	Santa Barbara County	Sonoma	% Difference
Chardonnay	\$1,247	\$1,990	63%
Pinot Noir	\$2,655	\$3,251	82%
Average Price, All Wine Grapes	\$1,751	\$2,319	76%

Source: Crop Reports, 2014. Santa Barbara County Agriculture Commissioner and Sonoma County Agricultural Commissioner

VALUE OF SANTA BARBARA COUNTY WINE

Most wineries in the US sell the majority of their wine through the “3-tier system”, to licensed state-based distributors that then sell on to retailers and restaurants across the US. About 64% of the wine produced by Santa Barbara's vintners is sold through this system. The balance is sold primarily direct to consumers, with a small amount exported or “self-distributed” — sold to retailers or restaurants without wholesaler intervention, largely possible only within California. Wholesalers usually buy from vintners at about 50% of the retail price, with the producer often paying additional promotion or marketing allowances or reimbursing distributors for discounts and promotions offered.

The total US retail value of all the wine produced² or grown in Santa Barbara County, including sales through the 3 tier system as well as direct to consumer and export sales, is estimated to have equaled nearly **\$845 million** in 2013, as shown in Table 7.

Table 7: Wine Revenue by Distribution Channel

	TOTAL US
SANTA BARBARA COUNTY WINERY REVENUE FROM TRADE/3 TIER SALES	\$116,509,031
DIRECT TO CONSUMER SALES	\$136,230,000
EXPORTS	\$18,328,000
TOTAL SANTA BARBARA COUNTY WINERY REVENUE	\$271,067,031
NON-SANTA BARBARA COUNTY WINERY REVENUE FROM WINE PRODUCED FROM SANTA BARBARA-GROWN GRAPES	\$143,397,425
EXPORTS OF SANTA BARBARA COUNTY WINE FROM NON-SANTA BARBARA COUNTY WINERIES	\$19,798,000

² We use TTB's totals for wine bottled in 2013 as the indicator for total wine production for this analysis.

	TOTAL US
TOTAL CALIFORNIA WINERY REVENUE	\$434,262,455
TOTAL US DISTRIBUTOR MARGIN	\$75,103,988
TOTAL US RETAILER & RESTAURANT MARGIN	\$335,368,662
TOTAL US RETAIL VALUE OF ALL WINE PRODUCED OR GROWN IN SANTA BARBARA COUNTY (EXCLUDES EXPORTS)	\$844,735,105

Source: Stonebridge Research, Industry Interviews, NASS, TTB, California State Board of Equalization

Consumer Direct Sales

The California State Board of Equalization (BOE), which collects California State sales and use tax, as well as fuel, alcohol, and tobacco taxes and fees, is now able to report sales tax collection by type of industry collecting the tax. Responding to a special request for this study, the BOE was able to provide sales tax collections directly by wineries and the totals for related taxable transactions for Santa Barbara County and for the entire State. Sales taxes are collected on taxable retail sales and thus these amounts can be reasonably assumed to reflect total retail sales by wineries, for wines sold directly to consumers and picked up at the wineries or shipped to them within the state of California.

Industry interviews allow us to estimate the share of such taxable transactions in total consumer direct sales and thus the total consumer direct sales for wineries in Santa Barbara County. On this basis, total consumer direct sales for wineries in Santa Barbara County are estimated to total **\$136³ million** (more than 34% of the value of wines produced in the county.)

In other words, Santa Barbara's wineries depend for consumer direct sales for more than one third of their revenue - perhaps far more — reflecting the difficulty these relatively small wineries have in gaining national three tier distribution.

Table 8: Sales Tax Taxable Transactions by Wineries (NAICS code 312130)

Region	Taxable Transactions
Santa Barbara County	\$54,592,000
State of California	\$1,088,200,000

Source: California State Board of Equalization

³ This total assumes that sales subject to California sales tax (i.e. sales taken from the tasting room or shipped to California addresses) represent about 40% of total direct sales. Some wineries have reported such sales represent a considerably larger share of total direct sales, reducing the total value and volume of such sales. The share of Santa Barbara's direct sales made in California is somewhat, even significantly higher, than that in similar regions. We did not attempt to estimate direct sales of Santa Barbara County wine produced outside the County since this involves a large number of vintners, not all of whom can be identified and for whom in most cases wine from Santa Barbara County grapes is part of much larger wine portfolios.

EMPLOYMENT

Wineries employ full and part-time workers as labor for bottling, storage, maintenance, and winemaking needs as well as hospitality, finance, sales, and marketing functions. Some wineries also employ seasonal labor, for hospitality. Vineyards employ both full-time, part-time and contract labor, including labor contractors and vineyard management staff. Supplier employment is more complex, as discussed below.

Table 9: Employment Impact of Wine Produced in Santa Barbara County

SECTOR	Santa Barbara COUNTY (FTE)
WINERY EMPLOYMENT FOR SANTA BARBARA COUNTY RELATED WINES	1,979
DISTRIBUTORS FOR SANTA BARBARA COUNTY RELATED WINE	38
3 TIER RETAIL & RESTAURANT INVOLVED IN SELLING SANTA BARBARA COUNTY WINE†	117
VINEYARD LABOR FOR SANTA BARBARA COUNTY RELATED WINE	1,754
SUPPLIERS FOR SANTA BARBARA COUNTY RELATED WINE	224
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATION LABOR FOR SANTA BARBARA COUNTY RELATED WINE	99
SANTA BARBARA COUNTY TOURISM INCLUDING RESTAURANT	1,568
TOTAL DIRECT JOBS	5,779
INDIRECT (IMPLAN)	1,710
INDUCED (IMPLAN)	1,669
TOTAL	9,158

Source: Stonebridge Research, US Bureau of Labor Statistics and industry interviews † This metric refers to workers involved in selling or servicing Santa Barbara County related wine. Note that the the labor in these categories generated by tourism are included in the tourism employment metric in this table.

Santa Barbara County grapes and wine, processed in Santa Barbara County and elsewhere in California, and their allied industries, directly and indirectly, provided more than **9,000** full-time equivalent jobs in Santa Barbara County, accounting for 4.5%⁴, of all the full time jobs reported in the county in 2013.

⁴ The California Economic Development Department reported total employment at 201,700 in 2013.

TOURISM

We estimate the total number of *visits*⁵ to Santa Barbara County wineries⁶ and regional wine events at more than **2 million** in 2013, by an estimated **860,000 visitors**, based on interviews with a cross section of wineries in each of the major sub-regions of the county as well as the winery benchmarking studies we have conducted over several years. Wineries have quite varied methods of tracking their visitor numbers -- paid tastings, glasses used, CRM or POS entries, etc. -- and some are still developing their visitor tracking methods. While the number of visits is substantial, it represents only about 14% of all visits to the county.

We then use all the information collected to estimate total visit numbers for each of the licensed wineries in the county, double checking our estimates with multiple wineries. In these estimates as in all estimates developed from interviews for this study, we always take the low end of a possible range of values to ensure that estimates are conservative as well as realistic.

Our next step was to determine the wine tourism related *spending and employment* in the county. Based on comparison of total Santa Barbara County visits and Santa Barbara County winery visits, and drawing on county and State visitor expenditure data, we estimate total spending in Santa Barbara⁷ generated by winery visits at **\$205 million**, spread among hospitality, recreation and entertainment, retail, transport and food service industries, supporting nearly 1,600 jobs in the county.

SUPPLIERS AND SERVICE PROVIDERS

Each iteration of this study allows more opportunities to deepen and expand the analysis of suppliers and service providers to the industry. Since the enterprises involved in the industry are either privately owned or services to the wine industry are just one of several lines of business for the enterprises, there is little if any public information available. Individual interviews with a combination of suppliers, vintners, growers and industry advisors are required to assemble the relevant data. As the information collected is often proprietary, we have aggregated the data presented into broad categories. We are most grateful for the cooperation and patience of so many of the respondents.

Santa Barbara County is home to few of the product and service suppliers to the wine and grape industry, depriving the county of both employment and tax revenues. Apart from a wine laboratory, irrigation service firm, environmental technology firms and accounting and law firms, most service and product suppliers are outside the county, including barrel and cork finishers, machine shops, printers and label producers, equipment brokers, meaning these products need to be trucked into the County. Although local accounting and law firms serve the industry, most of the banking for the industry comes from outside the county.

The county has been hesitant to allow new wineries to develop or existing wineries to expand and has also discouraged the emergence of suppliers to the industry, from warehouses to labels, providing an engine for employment growth and tax generation in nearby San Luis Obispo County. Even the truck transport

⁵ Note also that the number of visits is not the same as the total number of visitors to the county, as visitors often visit more than one winery. We estimate about 860,000 winery visitors in the county.

⁶ We only considered tourism to Santa Barbara County wineries in this study.

⁷ These visitors may also incur expenses in other regions — travel arrangers, transport etc — but we did not attempt to consider such expenditures. We have not included wine purchases in this total as that spending is included in wine sales tables above.

conveying Santa Barbara’s grapes and bulk wine to out-of-county wineries is largely provided by other regions and some producers even truck their wine up to Napa and Sonoma for warehousing, given the absence of competitive space in the county.

PUBLIC REVENUES

From grape to consumer, the wine and wine grape industry generates significant tax dollars, benefiting federal, state and local governments. Tax dollars are raised through sales taxes, excise taxes, income taxes, estate and gift taxes, payroll taxes, property taxes, and other business taxes and fees, including permits and licenses of various types.

Activities related to Santa Barbara County wine within Santa Barbara County generated more than **\$93 million in revenues for local (county, city) governments and the State of California** and more than **\$101 million** in Federal revenues in 2013, as detailed in Table 10 below.

In addition to Santa Barbara County’s share of various general state and local tax revenues, Santa Barbara County directly received more than \$7.5 million in taxes and fees from wineries and growers in 2013, primarily property taxes, reflecting the industry’s enormous capital investment in the county, with a 2015 assessed value in excess of \$700 million.

Table 10: Estimated Impact of All Wine Grown in Santa Barbara County on Government Revenues in 2012

	Generated by all Santa Barbara County grown wine activities within Santa Barbara County
PROPERTY TAX†	\$7,280,385
WINERY DIRECT SALES TAX**	\$272,960
TOTAL SANTA BARBARA COUNTY SPECIFIC TAXES	\$7,553,345
OTHER STATE AND LOCAL TAXES	
WINERY DIRECT SALES TAX	\$4,094,400
GROWER ASSESSMENTS	\$1,225,218
EXCISE TAX†	\$112,706
EMPLOYEE COMPENSATION	\$1,003,025
INDIRECT BUSINESS TAXES	\$59,847,640
HOUSEHOLD TAX	\$17,499,827
CORPORATE TAX	\$2,284,400

	Generated by all Santa Barbara County grown wine activities within Santa Barbara County
TOTAL	\$93,620,561
FEDERAL TAX	
EXCISE TAX***	\$2,746,059
COMPENSATION RELATED	\$42,659,310
INDIRECT BUSINESS TAX	\$6,503,888
HOUSEHOLD (INCOME) TAX	\$37,428,410
CORPORATE TAX	\$12,383,652
TOTAL	\$101,721,319
TOTAL TAXES PAID	\$195,341,880

Source: Stonebridge Research, DISCUS, California Board of Equalization and IMPLAN *Includes \$.75 per \$1,000 of wine grape revenue for Pierce's Disease and Glassy Winged Sharpshooter Eradication ** The county generally receives .5 percentage points of its 8% sales tax. *** Based on California BOE data. † Based on TTB data. †We do not attempt to estimate the property taxes paid by non-Santa Barbara County wineries producing wine from Santa Barbara County grapes, given the great diversity of such wineries.

Charitable Contributions

The wine industry is unique in its charitable support to the community. Based on discussions with the industry, charitable contributions by Santa Barbara County's wineries and grape growers in 2012 are estimated at nearly **\$2.4 million** in-kind and in-cash, plus substantial donations, generally in-kind (wine for auctions and related travel) or sponsorships, for charities in the rest of the country.

Many wineries do not even track such contributions or differentiate between family and company support. We have not attempted to estimate the many charitable donations provided by Santa Barbara County's wine industry to activities outside the county. Nor did we attempt to estimate charitable donations by producers outside the county making wine with Santa Barbara County grapes or by growers outside the county growing grapes that are processed in Santa Barbara County or the substantial support provided by suppliers and service providers to the industry.

Thus, overall charitable support from members of the industry may be significantly larger.

Part Two: The Economic Impact in Other California Counties of Making Wine from Santa Barbara County Grapes

The **total economic impact of making wine in counties other than Santa Barbara of making wine from Santa Barbara grapes** is estimated at more than \$1.17 billion. In other words, Santa Barbara County is transferring nearly **\$1.2 billion of value, along with more than 2,200 jobs and nearly \$26.8 million** in state and local tax revenues to other locations when it ships wine grapes out of the county, as shown in Tables 11, 12 and 13 below.

Analytical Framework

To estimate the impact produced by the wine grapes shipped elsewhere in California to make wine, we applied the metrics obtained in wine impact studies in other counties with interviews with a cross section of such vintners.

The major share of these grapes become more value-priced, larger volume wines, often with Central Coast or California appellations, produced by wineries making a large variety of wine from multiple regions. Thus, we found that both wine growing and wine making activities are more focused on containing costs than those in grape growing and winemaking in Santa Barbara County for Santa Barbara County appellation wines.

The vineyards serving this market are more likely to be mechanized, while Santa Barbara County appellation wines use more skilled, manual labor in the vineyard. Equipment procurement tends to be centralized, acquired statewide or nationally, whereas the smaller, higher end wineries are more likely to acquire supplies and equipment locally. Harvest labor is also more likely to use out of county labor crews. Finally, taking advantage of economies of scale, the incremental winery labor to add Santa Barbara County grapes to such producer's production is likely to be smaller than might be expected in the smaller, more specialized winemaking found within the county.

Since we assumed the lower range of labor and input costs and labor for this part of the analysis, the overall impact identified may be an underestimate of this impact. We also assume that all of this wine is produced within the State of California, although some of the grapes (or juice from these grapes) may be shipped beyond the state. In addition, we did not attempt to assess property taxes, charitable contributions or tourism related to the production and sale of wines from Santa Barbara County grapes for this group.

EMPLOYMENT

Given the assumptions noted above, we estimate that the production, out of Santa Barbara County, of wine from Santa Barbara County grapes generated 2,214 full-time equipment in 2013. We did not attempt to estimate the number of non-Santa Barbara County vineyard crews who might be involved in growing grapes destined for these wineries.

Table 11: Employment Impact of Wine Produced Outside of Santa Barbara County

SECTOR	OTHER CALIFORNIA (FTE)
WINERY EMPLOYMENT FOR SANTA BARBARA COUNTY RELATED WINES	363
DISTRIBUTORS FOR SANTA BARBARA COUNTY RELATED WINE	20
3 TIER RETAIL & RESTAURANT INVOLVED IN SELLING SANTA BARBARA COUNTY WINE†	322
VINEYARD LABOR FOR SANTA BARBARA COUNTY RELATED WINE	0
SUPPLIERS FOR SANTA BARBARA COUNTY RELATED WINE	207
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATION LABOR FOR SANTA BARBARA COUNTY RELATED WINE	50
TOTAL DIRECT JOBS	961
INDIRECT (IMPLAN)	653
INDUCED (IMPLAN)	600
TOTAL	2,214

Source: Stonebridge Research Group, industry interviews and IMPLAN

SUPPLIERS

As noted above, vineyards focused on out-of-county winemaking are more likely to use out-of-county agricultural suppliers.

We have not included in this impact calculation the impact of the many out-of-county suppliers and services used by wine producers located within the county. Santa Barbara County’s vintners need to look out of county not only for such light industry activities trucking and warehousing, both of which are hugely important to the industry, but for such high income activities as equipment brokers, graphic artists, printing and many professional services. Including such jobs in our analysis would increase the total in Table 11 by 20% to 30%.

PUBLIC REVENUES

As noted above, we do not attempt to estimate property taxes for this group of producers. Nor do we assume any direct sales of such wines by these producers.

We estimate that a total of **\$25.8 million of California state and local taxes** and **\$30.9 million in federal taxes** are generated by wine produced out of Santa Barbara County from Santa Barbara County Grapes, for a total of **\$56.8 million**.

Table 12: Estimated Impact on Government Revenues of Making Wine in Other Parts of California from Santa Barbara County Grapes, 2013

	Generated in other parts of CA by Santa Barbara County grown wine activities
STATE AND LOCAL TAXES	
EXCISE TAX†	\$288,884
EMPLOYEE COMPENSATION	\$388,700
INDIRECT BUSINESS TAXES	\$19,044,753
HOUSEHOLD TAX	\$5,120,720
CORPORATE TAX	\$965,444
TOTAL	\$25,808,501
FEDERAL TAX	
EXCISE TAX***	\$9,035,013
COMPENSATION RELATED	\$12,645,572
INDIRECT BUSINESS TAX	\$4,972,867
HOUSEHOLD (INCOME) TAX	\$2,364,623
CORPORATE TAX	\$10,963,022
TOTAL	\$30,946,084
TOTAL TAXES PAID	\$56,754,585

TABLE 13: THE ECONOMIC IMPACT IN OTHER CALIFORNIA COUNTIES OF MAKING WINE FROM SANTA BARBARA COUNTY GRAPES, 2013

	Current Impact
REVENUE	
WINERY REVENUE	\$ 286,223,250
DISTRIBUTOR MARKUP	\$ 8,431,769
RETAIL/RESTAURANT MARKUP	\$ 33,727,074
SUPPLIERS	\$ 49,026,815
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATIONS	\$ 38,395,405
TAX REVENUES - FEDERAL	\$ 30,946,084
TAX REVENUES - STATE AND LOCAL	\$ 25,808,501
INDIRECT (IMPLAN)	\$ 123,655,331
INDUCED (IMPLAN)	\$ 430,210,175
TOTAL REVENUE	\$ 1,026,424,404
WAGES	
WINERIES	\$ 19,220,307
DISTRIBUTORS	\$ 1,686,354
RETAIL/RESTAURANT	\$ 6,745,415
SUPPLIERS	\$ 9,637,338
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATION	\$ 4,928,809
INDIRECT (IMPLAN)	\$ 60,548,047
INDUCED (IMPLAN)	\$ 45,028,844
TOTAL WAGES	\$ 147,795,114
TOTAL IMPACT	\$ 1,174,219,518

Part Three: What if Santa Barbara County Winemaking Was Allowed to Grow?

Santa Barbara County exports to other counties much of the benefit of its grape growing achievements, a practice which depresses the value of its grapes and vineyards and costs the county in jobs and tax revenues.

To begin to assess how these losses might be mitigated, we assessed the potential impact on the county's economy of retaining within the county 20% of the grapes fermented out of county. Such retention would require flexibility in county regulations to allow some growth in existing wineries and in the number of wineries allowed in the County.

Allowing the development of more Santa Barbara County brands and the growth of more wineries to be able to support national distribution should also lead to a sizable increase in the value of Santa Barbara's grapes and wine. How much of an increase? Looking at the similar experience in Paso Robles, where Cabernet Sauvignon prices grew, over 6 years, about 25% beyond the overall increase in Cabernet Sauvignon prices in the period, we assume a 15% increase the average Santa Barbara County wine grape price. As Santa Barbara County wine reached a more competitive scale, we assume some increase in professional and skilled labor sourced in the County as well as a modest increase in warehouse capabilities, to accommodate this production, and in winery construction, and the professional services to support both. Contrary to some expectations, winery tourism does not increase directly with wine production but there will be some increase in winery visitors, which we estimate at 15%.

This shift would increase the overall economic impact of wine and related activities in Santa Barbara County by more than \$300 million, to more than \$2 billion, as shown in Table 16, at the end of this report.

EMPLOYMENT

Shifting this wine production back to Santa Barbara County County would create 1,205 new jobs in the county, across a range of activities and professions.

Table 14: Employment Impact of Shifting 20% of Grapes Processed Out of County Back to Santa Barbara County

SECTOR	OTHER CALIFORNIA (FTE)
WINERY EMPLOYMENT FOR SANTA BARBARA COUNTY RELATED WINES	73
DISTRIBUTORS FOR SANTA BARBARA COUNTY RELATED WINE	8
3 TIER RETAIL & RESTAURANT INVOLVED IN SELLING SANTA BARBARA COUNTY WINE†	164
SUPPLIERS FOR SANTA BARBARA COUNTY RELATED WINE	53

SECTOR	OTHER CALIFORNIA (FTE)
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATION LABOR FOR SANTA BARBARA COUNTY RELATED WINE	13
TOURISM	518
TOTAL DIRECT JOBS	829
INDIRECT (IMPLAN)	195
INDUCED (IMPLAN)	181
TOTAL	1,205

Source: Stonebridge Research, industry interviews and IMPLAN

As more grapes are made into Santa Barbara County Appellation wines, handwork in the vineyard may increase to take these grapes to a higher quality level, increasing in-county vineyard labor by as many as 240 jobs.

PUBLIC REVENUES

This expansion in wine production and employment would also increase public revenues generated by the industry. **State and local taxes are estimated to increase by \$13.8 million and federal revenues by \$12.8 million**, for a total expansion in public revenues of **\$26.6 million**.

Table 15: Estimated Impact on Government Revenues of Shifting 20% of of Grapes Processed Out of County Back to Santa Barbara County

	Generated by all Santa Barbara County grown wine activities within Santa Barbara County	Potential Revenue Increase
PROPERTY TAX	\$8,736,461	\$1,476,077
WINERY DIRECT SALES TAX**	\$327,552	\$54,592
TOTAL SANTA BARBARA COUNTY SPECIFIC TAXES	\$9,064,013	\$1,530,669
OTHER STATE AND LOCAL TAXES		
WINERY DIRECT SALES TAX	\$4,913,280	\$818,880
GROWER ASSESSMENTS	\$1,225,218	\$0
EXCISE TAX†	\$135,247	\$0

	Generated by all Santa Barbara County grown wine activities within Santa Barbara County	Potential Revenue Increase
EMPLOYEE COMPENSATION	\$1,003,025	\$131,757
INDIRECT BUSINESS TAXES	\$59,847,640	\$9,205,855
HOUSEHOLD TAX	\$17,499,827	\$1,854,649
CORPORATE TAX	\$2,284,400	\$298,337
TOTAL	\$95,972,651	\$13,840,147
FEDERAL TAX		
EXCISE TAX***	\$2,746,059	\$1,070,963
COMPENSATION RELATED	\$42,659,310	\$5,159,649
INDIRECT BUSINESS TAX	\$6,503,888	\$1,000,438
HOUSEHOLD (INCOME) TAX	\$37,428,410	\$3,966,700
CORPORATE TAX	\$12,383,652	\$1,563,065
TOTAL	\$101,721,319	\$12,760,815
TOTAL TAXES PAID	\$197,693,970	\$26,600,962

Source: Stonebridge Research, industry interviews, TTB, California State BOE and IMPLAN

Part Four: Conclusions and Observations

Wine and Grape Economic Impact

The total economic impact of wine grapes grown in Santa Barbara County and wine produced in Santa Barbara County exceeded \$1.7 billion in 2013.

Another \$1.17 billion of economic impact was also generated in other parts of California in 2013 from the grapes grown in Santa Barbara and made into wine in these other counties.

Shifting just 20% of these grapes back to Santa Barbara for winemaking would increase the economic benefits to Santa Barbara County by \$300 million, for a total economic impact in the county to \$2 billion.

As of 2014, nearly half of Santa Barbara's wine grape production travels outside the County to be made into wine. A substantial share of this wine then travels out of county for bottling and storage before sale. There are a variety of reason for this practice:

- The County lacks adequate capacity in winemaking, bottling and storage, often because of County regulation.
- The grapes are often blended by large producers into multi-county Central Coast or California appellation wines because Santa Barbara Appellation is not seen to have distinctive value or demand in the market. Central Coast and California appellation wines tend to sell at lower value than wines labeled with more specific appellations.

These practices tend to significantly depress the value of Santa Barbara grapes and wine.

Grape and Wine Values

Those who know Santa Barbara County wines are uniformly impressed by their quality and potential but growing grapes in the county, given climate and terrain, is expensive — comparable to and even somewhat more expensive on average than such other premium regions as Napa and Sonoma. **Yet grape prices, while improving, remain well below the prices obtained for comparable grapes in those regions, as shown in Table 6 above.**

Grape prices are a function of the reputation of the wines they produce. Few Santa Barbara County based producers have the size and resources to build national distribution, to enable both the wine trade and consumers across the US to discover Santa Barbara's wines. In the latest update of Stonebridge's Fine Wine Trade Monitor⁸, it is startling how few decision makers in the US wine trade are familiar with the region's wines (or report their customers are familiar with or ask for Santa Barbara County wines) or can easily name Santa Barbara County brands. Yet the county's wineries are restrained from growing to adequate size to build a strong market reputation and thus increase the value of both Santa Barbara grapes and wine.

⁸ The Stonebridge Fine Wine Trade Monitor, produced every two years since 2010, identifies key patterns in the non-scan data sectors of US fine wine market (full service off-premise, independent and specialty wine and liquor stores) as well as key distributors based on in-depth interviews with 80 top decision makers in the wine trade in the 10 key US wine markets and a selection of secondary markets.

Nor does constraining winery size reduce winery dependence on customer direct sales — lacking a national market presence, wineries become overly dependent on such sales. Consumer direct sales are primarily brand building for wineries — winery visitors are powerful brand ambassadors for the wineries they visit, generating word of mouth usually reflected in growing three tier sales. (Consumers are not going to ship wines if they can buy them at retail or a restaurant near their homes.) More than a decade of Stonebridge’s winery research consistently shows there is little support for the assumption that the number of winery visitors grows proportionately with a winery’s production. In fact, the share of direct sales tends in total sales tends to decline as the winery builds a national market.

TABLE 16: TOTAL ECONOMIC IMPACT OF SANTA BARBARA COUNTY RELATED WINE AND GRAPES IN SANTA BARBARA COUNTY, 2013

	Current Impact in Santa Barbara County	Potential Increase in Impact
REVENUE		
WINERY REVENUE	\$ 271,482,279	\$ 57,244,650
DISTRIBUTOR MARKUP	\$ 1,825,614	\$ 1,919,486
RETAIL/RESTAURANT MARKUP	\$ 10,899,898	\$ 14,568,782
WINE GRAPE SALES	\$ 162,362,417	\$ 24,354,363
TOURISM	\$ 205,413,880	\$ 52,835,086
SUPPLIERS	\$ 55,538,365	\$ 13,625,113
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATIONS	\$ 21,293,090	\$ 12,879,114
CHARITABLE CONTRIBUTIONS	\$ 2,400,000	\$ 480,000
TAX REVENUES - FEDERAL	\$ 101,721,219	\$ 12,760,815
TAX REVENUES - STATE AND LOCAL	\$ 93,620,561	\$ 13,840,147
INDIRECT (IMPLAN)	\$ 256,321,818	\$ 31,916,017
INDUCED (IMPLAN)	\$ 224,350,769	\$ 24,337,142
TOTAL REVENUE	\$ 1,407,229,910	\$ 260,760,715
WAGES		
WINERIES	\$ 42,259,821	\$ 3,844,061
DISTRIBUTORS	\$ 1,874,046	\$ 374,809
RETAIL/RESTAURANT	\$ 2,199,042	\$ 3,036,608
VINEYARD	\$ 45,863,810	\$ 0
TOURISM	\$ 31,619,131	\$ 9,507,938
SUPPLIERS	\$ 10,600,737	\$ 2,243,343
PROFESSIONAL SERVICES, EDUCATION & ASSOCIATION	\$ 6,732,319	\$ 1,354,515
INDIRECT (IMPLAN)	\$ 99,743,280	\$ 11,074,024

	Current Impact in Santa Barbara County	Potential Increase in Impact
INDUCED (IMPLAN)	\$ 78,299,113	\$ 8,491,892
TOTAL WAGES	\$ 319,191,299	\$ 39,927,190
TOTAL IMPACT	\$ 1,726,421,209	\$ 300,687,905

Source: Stonebridge Research, US Bureau of Labor Statistics, California NASS, TTB, CA State Board of Equalization and industry interviews