



2014
**NORTH
COUNTY
CRAFT
BREW
REPORT**

NATIONAL UNIVERSITY SYSTEM
INSTITUTE FOR POLICY RESEARCH

A Report by the National University System Institute for Policy Research

This study was underwritten, in part, by the San Diego North Economic Development Council (SDNEDC). All conclusions, errors and omissions are the sole responsibility of the authors. We thank SDNEDC for their support.

North County is home to numerous breweries that have been spreading the appreciation of craft beer to the masses for years and years. Just as the craft brewing industry has become an integral part of the City of San Diego's identity, the same has happened for the North County, providing the area's locals access to breweries and brewpubs, and creating a vibrant Beer Tourism industry. I believe that the more recent expansion of breweries beyond industrial areas and business parks is direct proof of the North County's world class ability and San Diego's Beer Tourism influence.

Brian Scott

President, San Diego Brewers Guild

EXECUTIVE SUMMARY

Since 2010, craft brewing in San Diego has soared, creating hundreds of new jobs and fostering millions of dollars in new investment. As a region, North County has benefited from this investment. However, it is unclear what factors are driving growth in North County and what factors are hindering greater opportunity. To explore these questions, National University System Institute for Policy Research, in partnership with the San Diego North Economic Development Council, used business records and survey data to measure how North County is participating in the business of craft brewing.

We found that:

- **Craft brewing in North County had a \$272.3 million economic impact in 2013.**
This figure includes brewers, brewpubs, homebrew shops, hops farms and a brewing system designer. Combined, these businesses also generated \$185 million in total annual sales.
- **Overall, the North County craft beer industry supports 1,700 jobs.**
In North County, businesses directly employ 850 workers, mostly at breweries and brewpubs.
- **North County craft beer is sold at most of the highest-earning North County restaurants.**
This is a positive sign for regional brand awareness and consumer sales. However, some surveyed cities have low support for regionally brewed beer.
- **There are important land use and zoning differences among North County cities that affect brewers and brewpubs.**
North County is a regulatory patchwork for the industry, offering varying levels of restrictions for brewers and brewpub owners to follow. More regulatory certainty and industry-specific rules may facilitate greater investment and job creation.

North County is Home to Nearly 40 Breweries and Brewpubs

NUSIPR began its analysis of the North County craft beer industry by examining regional employment and businesses. Using proprietary business records and Internet research, we identified **30 breweries** and **8 brewpubs** in the North County area, directly employing approximately 850 workers.¹

Both breweries & brewpubs have job categories that are commonly found in other manufacturing businesses, such as packaging, maintenance, information technology, supply chain management, finance, sales and marketing. Brewpubs are much more dependent on skillsets found in the food service and hospitality sectors; most of the payroll is composed of jobs such as hosts, servers, cooks, line cooks, bar tenders and dishwashers. In San Diego, craft beer jobs are mostly brewpub jobs. Countywide, NUSIPR identifies about 1/3 of local industry jobs as directly related to brewing, while 2/3 of jobs are focused mainly on brewpub operations.

North County's craft brewing industry is more than just breweries and brewpubs. Unique industry services and resources have helped shaped its identity as a center for craft brewing activity.

Brewing Systems Design & Manufacturing

Located in Escondido, Premier Stainless Systems designs and manufacturers customized brewery systems, tanks, and keg washers. The company's client list includes more than sixteen local breweries, and dozens more worldwide. Most notably in 2013, Premier built the 10 barrel brewing system used by Stone Brewing at their new Liberty Station location, as well as Ballast Point's five-barrel system at their Tasting Room & Kitchen in Little Italy. Overall, Premier has between 19 to 35 employees.

Hops Farms

There are only a handful of hops farms in the region, all of which are small, boutique operations. NUSIPR identified four hops farms in San Diego, all of which are located in North County - Valley Center, Ramona and Julian. We estimate these farms employ 12 workers full-time.

One of the largest hops farms is ZP Growers, located in Valley Center. As a boutique business, ZP Growers is unable to compete with the large out-of-state farms that produce tons of dry, pelleted hops each year to brewers. Their business model instead is focused on providing full, fresh "wet" hops to local micro-brewers and home brewers. Unlike dry hops, fresh hops are delicate and spoil quickly. ZP Growers currently works with three local breweries, including Fallbrook Brewing.

ZP Growers distributes a quarterly newsletter to inform brewers of their growing schedule, allowing them time to plan for fresh hops for future brews. Brewers order fresh hops (sometimes grown on request), and experiment with different tastes and aromas. Through working partnerships, the hops farm facilitates greater industry collaboration, hands-on learning and education.

¹ For the purposes of this report, "North County" is defined by the unincorporated county area north of Highway 52, and the cities of Del Mar, Solana Beach, Encinitas, Carlsbad, Oceanside, Vista, San Marcos, Poway, and Escondido.

North County is Creating a Geographical “Critical Mass” along Key Transportation Links

Hops Highway

Highway 78 earned the nickname “Hops Highway” in 2012 as a popular route used to visit 1 out of 3 breweries and brewpubs in San Diego County. Stretching from Oceanside to Julian, it connects some of the most well-known breweries in San Diego, including Stone, Mother Earth, and Lost Abbey, along a sixty mile pathway. The Hops Highway is referenced in the San Diego Brewers Guild’s visitor guide, and Vista’s Belching Beaver Brewing Company adopted the nickname for one of its India Pale Ales. Along with the City of San Diego’s 30 Street “Craft Beer Corridor,” the Hops Highway is one of the few public spaces in California to be branded with the craft brewing industry.

The City of Vista

The most active North County area for craft brewing is Vista. As of July 2014, Vista has 10 breweries, with three more to open by the end of the year. According to Melody Campbell, the Chair of the Vista Brewers Guild, the City of Vista has more breweries per capita than Portland, Oregon.

Much of the success of Vista brewing can be attributed to a unique public-private partnership. Early on, city officials took a pro-active approach to supporting the industry. Most notably, the City of Vista helped establish the Vista Breweries Guild in 2012 to work with the industry as a whole. The Guild, which meets monthly, facilitates dialogue and collaboration between the City and brewery owners on common goals – promoting Vista and industry growth.

According to Kevin Ham, Director of Economic Development at the City of Vista, this partnership has fostered positive change for the local industry. City ordinances were changed, allowing tasting rooms in industrial zones, and permitting food trucks in business parks so long as tasting rooms are open. In 2012, the City Council unanimously approved live entertainment permits for breweries, allowing live acoustic music in tasting rooms. City officials also worked with federal authorities to enable brewers to ship overseas, and connected brewers with beverage store giant BevMo! to sell more of their beer to consumers. The City continues to work with the Guild and its members on local and state legislation.

Craft Beer has a Significant Economic Impact in North County

The sales generated by North County brewers, brewpubs and ancillary services foster job creation, tax revenue and new economic activity. A “multiplier effect” is also created when industry dollars are recirculated in the local economy, indirectly supporting more jobs and additional business activities. Indirect impacts refer to those impacts that result as businesses procure goods and services from other businesses (and, in turn, these businesses buy goods and services from others). Induced impacts refer to the impacts associated when employees spend their salaries on goods and services (and, in turn, the associated impacts as these expenditures continue to circulate through a local economy).

To determine the economic impact of the industry in North County, NUSIPR evaluated business records for all brewers, brewpubs, hops farms, homebrew supply stores, and brewery system designers, and determined their total sales volume for 2013. We estimate this figure as \$185.4 million. NUSIPR then analyzed sales data using IMPLAN, a leading regional input/output model. Input/output models are an econometric technique used to explore economic relationships within a designated geography. Overall, we found that the North County craft beer industry generated a \$272.3 million regional economic impact in 2013. We also found that the industry supports a total of 1,687 jobs in San Diego County, a figure which includes all direct (850), indirect (412), and induced (425) jobs. This figure is greater than the economic impact of Comic-Con International in 2014 (\$177.8 million), San Diego’s largest annual convention.

Table 1: Economic Impact Analysis of the North County Craft Brew Industry, 2013

	Direct Impacts	Indirect (in millions)	Induced (in millions)	Total (in millions)
Economic Activity (in millions)	185.4	49.7	37.2	272.3
Employment	850	412	425	1,687

Craft Beer Well Represented at North County Restaurants

One of the growing topics of discussion in the craft brewing community is brand awareness. The degree to which the public can see a product available on a menu, at a store, or learn about it from a friend can increase consumer interest and sales. Few craft brewers pay for advertising, and depend more on distribution and word of mouth for marketing and revenue. Furthermore, selling locally brewed beer keeps more North County dollars “local” – maximizing their economic impact. This concept, called “import substitution”, has a long history in economic development *and has just as much of dollar for dollar as attracting new “export oriented” cluster industries.*

With this in mind, NUSIPR sought to gauge how prevalent North County craft beer sales are at major North County restaurants. We developed a survey and sample to examine this question. To develop our sample, we used ReferenceUSA, a leading provider of business records. We sorted the data for full service restaurants with a sales volume of \$1 million or more in 2013 at all nine North County cities – Del Mar, Encinitas, Solana Beach, Carlsbad, Vista, Oceanside, San Marcos, Escondido, and Poway. NUSIPR then removed from the dataset all known diners, buffets, establishments that do not serve alcohol, or establishments that serve primarily breakfast and lunch (cafes). We selected the resulting top 10 restaurants for each city by sales volume. The resulting list was 90 restaurants that employ approximately 5,857 workers that grossed a cumulative \$393.3 million in 2013.

Over the course of a week in July 2014, we called each restaurant, asking them:

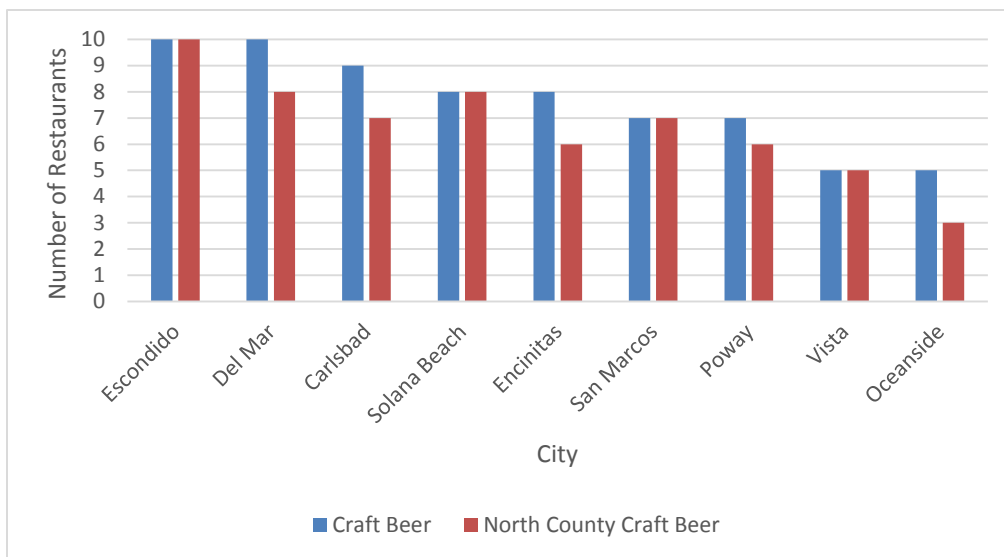
- 1) if they sell craft beer
- 2) if they sell North County craft beer.

We received a 100% response rate.

Overall, we found North County restaurants to be strong supporters of craft beer – 69 out of 90 (77%) survey respondents indicated they sold craft beer. Of restaurants that sell craft beer, 9 out of 10 (86%) sell craft beer brewed in North County. The most common response for the North County beers sold was Stone, followed by a wide variety of smaller breweries including Mother Earth and Port Brewing.

Important distinctions in responses were found by city. As illustrated in the following chart, there are varying levels of support for North County craft beer by city. Escondido had the strongest support with 10 out of 10 restaurants surveyed stating they sold North County craft beer. Oceanside had the lowest, with only 3 restaurants selling regional brews.

Chart 1: Full Service Restaurants That Serve Craft Beer, By City



Municipal Land Use and Planning Survey

One of the ways in which U.S. cities are now courting investment by the Brewing Industry is by overhauling their land use and zoning policies. While some cities in San Diego County have made well publicized industry-friendly policy changes (notably San Diego and Vista), the overall regulatory landscape in North County is largely unknown. More information could help determine a baseline for review, comparisons and further recommendations.

As part of our analysis, NUSIPR took a closer look at the land use and planning policies governing breweries and brewpubs in the North County area, and compared them to those of the City of San Diego and the County.

In July 2014, NUSIPR distributed a survey via electronic mail to either the City Manager or Planning Director of each municipality, requesting their assistance in answering the five following questions:

1. Does your municipality have specific zoning or other land use ordinances pertaining to breweries and brewpubs?
2. Are there any industrially or commercially zoned areas where breweries or brew pubs are specifically prohibited?
3. What provisions are there in your municipal code to provide for breweries to open tasting rooms or small commercial operations to sell products and merchandise?
4. Would breweries holding special events, for example an event around the release of a new beer, need to obtain any special permits? Would such requirements vary on the size of the event and can you provide any details on the various thresholds that would trigger various requirements?
5. One of the growing trends among craft brewers is the opening of very small brewing operations in conjunction with a retail/storefront presence. Would your current zoning ordinances pertaining to commercial areas allow for such a use?

After four weeks, NUSIPR received a 100% response rate from survey recipients. We compared the responses, and summarized them. We rated the aggregated responses using five scores: “Yes” and “No” when there was a clear consensus; “Strong Yes” and “Strong No” when the consensus was overwhelming and for similar reasons; and “Varies” when there was either no consensus, or somewhat of a consensus but for different reasons.

The following are the summary responses and ratings to the survey.

Does your municipality have specific zoning or other land use ordinances pertaining to breweries and brewpubs? **NO**

Only two cities (Carlsbad and San Marcos) reported they have specific zoning ordinance references to breweries and brewpubs. Most cities stated they generally interpret breweries as food production, industrial or manufacturing use, and brewpubs as restaurants. However, there was some variance, particularly among the smaller coastal cities (Del Mar, Solana Beach, Encinitas) where breweries and brewpubs are more likely to be classified as bars. Breweries and brewpubs are technically prohibited in Encinitas, but brewpubs may be classified as either a bar or “restaurant with alcohol,” depending on business activities. Solana Beach also stated that the categorization of breweries and brewpubs depends on the level of business activities. The City of San Diego lacks a citywide classification scheme, but in May 2014 it adopted definitions for Brewery Tasting Rooms, Brewpubs, and Brewpub Tasting Rooms for the Centre City Planned District Ordinance. The County has no specific language either, however brewing is considered a General Industrial use type and brewpubs are considered an Eating and Drinking Establishment use type.

Are there any industrially or commercially zoned areas where breweries or brew pubs are specifically prohibited? **STRONG YES**

Every city provided language that indicated breweries and brewpubs were either limited to certain industrially and commercially zoned areas, or were only permitted under certain conditions. Smaller, coastal communities had the highest level of restrictions; for example, Del Mar only allows on-site brewing in its North Commercial zone.

Generally, cities indicated they were more permissive with brewery placement in industrially zoned areas than brewpub placement in commercially zoned areas. For example, San Marcos permits breweries by right in Industrial and Light Industrial Zones, but only small scale brewpubs are permitted in Commercial Zones and some Specific Plan Areas with a Conditional Use Permit. Oceanside was the only city that stated it both permitted breweries in industrial areas by right and brewpubs in commercial areas by right.

The City and the County of San Diego were both ministerial in their responses. So long as breweries and brewpubs were located in the “correct zone,” then they would be allowed.

What provisions are there in your municipal code to provide for breweries to open tasting rooms or small commercial operations to sell products and merchandise? **VARIES**

Nearly every city indicated it had provisions that allowed retail sales and tasting rooms ancillary to breweries. The County of San Diego and Oceanside stated their municipal codes were silent on tasting rooms and on-site retail sales, however the County stated those uses would be allowed in conjunction with the brewery. Only Solana Beach indicated that the uses would be considered on a case by case basis. Encinitas requires a major use permit for a tasting room, and Carlsbad requires a Conditional Use Permit for breweries with tasting rooms and retail accessory use in certain commercially and industrially zoned areas.

The City of San Diego allows accessory uses for breweries and brewpubs in commercial zones, and in industrial areas with some restrictions.

Would breweries holding special events, for example an event around the release of a new beer, need to obtain any special permits? Would such requirements vary on the size of the event and can you provide any details on the various thresholds that would trigger various requirements? **STRONG YES**

Most cities required special permits for events that occurred either in outside areas on private property, or where private parking lots are partially or completely closed as a result of the event. Events held entirely indoors on private property did not require special permits. Permit approval is required by different agencies, depending on the city, including a building official, the Parks and Recreation Department, or the City Manager's Office. Del Mar requires an Operations Permit for any special event involving 50 or more people on private property. The City of San Diego requires a temporary use permit for "temporary public assembly and entertainment uses" on private property. If the event is located within the parking lot, then City approval may be required.

One of the growing trends among craft brewers is the opening of very small brewing operations in conjunction with a retail/storefront presence. Would your current zoning ordinances pertaining to commercial areas allow for such a use? **YES**

Nearly every city indicated they would allow small breweries in some commercial areas, but their specific use category varied. For example, Solana Beach classified this business type as "retail – alcohol sales for offsite consumption use," and Poway classifies them as a restaurant that also serves and makes beer. NUSIPR found that municipal approval was generally more difficult for this type of business model; San Marcos, Oceanside and Carlsbad require a Conditional Use Permit for commercially zoned breweries. Only the City of Encinitas ruled them out completely.

The City of San Diego and the County permit commercially zoned breweries with accessory use.

Conclusion and Next Steps

A significant degree of craft brewing activity in San Diego is centered in North County. With greater collaboration between brewers and elected officials, more industry development and opportunities can be created.

To the degree that economic development strategies in North County can incorporate the craft brewing industry, a true industry cluster of interconnected companies will emerge that will increase productivity and the competitive edge of local brewers in the marketplace. Other aspects of the brewing sector such as science, agritech and research can be established locally, creating high-paying jobs.

More attention is needed to examine how North County craft beer is marketed and sold on the regional level. The more local restaurants can sell regionally brewed beer, the greater the sales tax revenue cities can take in. National point of sale purchase data has shown that when craft beer is purchased, consumers decide to spend more on food and beverages. Restaurateurs should start a dialogue with local beer distributors to understand their options for acquiring local craft beer for sale.

Finally, the status quo on land use and zoning policies affecting the industry should be reconsidered. North County is a regulatory patchwork for the industry, offering varying levels of restrictions for brewers and brewpub owners to follow. As each municipality is unique and has different constraints, a uniform regulatory framework is likely untenable. However, crafting more regulatory certainty and industry-specific rules may facilitate greater investment and job creation. Industry officials should be asked for their assistance in establishing specific industry rules and determinations.

