



# **The Economic and Fiscal Impacts of Better Wine & Beer Policy in Maryland**

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Submitted to:  
Marylanders for Better Beer and Wine Laws

December 2012

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# The Economic and Fiscal Impacts of Better Wine & Beer Policy in Maryland

## Executive Summary

### Purpose of This Report

Even 79 years after the end of Prohibition, the regulation of alcoholic beverages remains virtually all-encompassing. In Maryland and throughout other parts of the nation, the when (e.g., no sales on Sundays), where, what, to whom and how of alcohol sales are regulated. While some of these regulations are promulgated to protect the public from improper alcohol consumption (e.g., laws against drunk driving or restrictions of consumption for young people), others seem to be simply focused upon protecting certain merchant types from competition.

This report focuses on one specific prohibition still in place in Maryland – one that has been lifted in virtually all other states. With the exception of a handful of grandfathered enterprises, Maryland currently prohibits the sale of beer and wine sales at its chain stores, including grocery stores. The prohibition effectively results in Marylanders being forced to purchase beer and wine at liquor stores, granting these entities substantial market power. The result is that Marylanders pay higher prices and have less income left over for other items, including for debt repayment, food, shelter, and tuition.

That said, Maryland has made progress toward greater consumer freedom in recent years. For instance until very recently, Maryland's own wineries could not ship directly to Marylanders. That has changed. Under a law passed by the Maryland legislature in 2011, Marylanders can now enjoy direct wine shipping. In 2012, lawmakers passed a bill that allows corkage, or the practice of bringing one's own wine to restaurants. Allowing corkage brings Maryland into line with the District of Columbia, which has allowed the practice for years and with Virginia, which legalized the practice in 2011.

Permitting chain store sales of beer and wine represents a logical next step in enhancing consumer access and rendering Maryland more competitive. Accordingly, Marylanders for Better Beer and Wine Laws commissioned Sage Policy Group, Inc. (Sage), a Baltimore-based economic and policy consultancy, to determine what the economic and fiscal impacts of allowing chain stores to sell beer and wine would be.

### Methodology

To quantify economic and fiscal impacts associated with greater convenience and competition, Sage utilized Maryland-specific IMPLAN multipliers to generate estimates of employment, income and output. Employment impacts encompass both full- and part-time workers. Labor income is defined as all forms of employment income, including employee compensation (wages and benefits) and proprietor's income. Output represents the sum total of value-added contributions. Value-added is captured in the form of business sales that take place due to beer and wine sales and secondary impacts produced by the businesses and workers that are indirectly related to beer and wine sales.

To conduct the fiscal portion of the analysis, Sage relied heavily upon publicly available information, including government-published tax rates and budgetary information. Fiscal impacts associated with licenses were projected based in part on proposed rates provided by Marylanders for Better Beer & Wine Laws. These rates are subject to modification.

Key Analytical Findings

- Beer and wine sales in chain stores will generate an economic impact approaching \$100 million per annum. Upfront licensing fees will generate \$72 million for the State of Maryland and permanent/annual fiscal impacts will be in excess of \$22 million in 2012 dollars;
- Evidence indicates that in most states, independent liquor stores have remained competitive despite competition from chain stores such as groceries;
- Enhanced product availability at chain stores and associated convenience will encourage a level of economic activity that would not otherwise take place in Maryland;
- The availability of beer and wine at Maryland’s chain stores will result in a net increase of 5.5 percent in total annual beer consumption in Maryland and a 6.5 percent increase in wine consumption;
- The net increase in beer sales will be an estimated \$64.6 million in beer sales and \$16.1 million in wine sales – a total of \$80.7 million in expanded sales volume for chain stores, part of which reflects demand that will be repatriated from the District of Columbia;
- Beer and wine sales at current off-premise license holders (e.g., liquor stores) will decline 1.1 percent and 1.6 percent in dollar terms, respectively. This translates into \$13,624 in lost beer sales per annum and \$3,489 in wine sales per annum per current off-premise license holder;
- The number of jobs created directly and secondarily by expanded sales activity approaches 500. In terms of FTEs (full-time equivalents), this translates into 435 jobs. Associated employee compensation would be approximately \$17 million per annum, of which \$14 million would be in the form of wages and salaries. This translates into nearly \$28,000 per job and more than \$32,000 for each FTE.

Exhibit E1. Economic Impact of Chain Store Sales of Beer and Wine in Maryland

| Type of impact   | Full & Part-Time Jobs | Employee Compensation (\$millions) | Employee Wages & Salaries (\$millions) | Business Sales (\$millions) |
|------------------|-----------------------|------------------------------------|--|-----------------------------|
| Direct effects   | 362.1                 | \$11.2                             | \$9.2                                  | \$80.7                      |
| Indirect effects | 43.5                  | \$2.0                              | \$1.7                                  | \$6.5                       |
| Induced effects  | 94.1                  | \$3.8                              | \$3.2                                  | \$12.0                      |
| <b>Total</b>     | <b>499.7</b>          | <b>\$17.0</b>                      | <b>\$14.0</b>                          | <b>\$99.2</b>               |

Source: Sage

Conclusion

Maryland can generate significant economic impacts and efficiencies by emulating the practice of 46<sup>1</sup> other states. In those states, chain stores are able to sell wine and beer. Allowing chain stores to expand their offerings would result in more competitive prices, expanded consumer selection, enhanced sales of locally produced wine and beer, job creation and nearly \$23 million/annum for the State's treasury in addition to \$72 million in upfront licensing fees.

## **The Economic and Fiscal Impacts of Better Wine & Beer Policy in Maryland**

### **I. Introduction**

Even 79 years after the end of Prohibition, the regulation of alcoholic beverages remains virtually all-encompassing. In Maryland and throughout other parts of the nation, the when (e.g., no sales on Sundays), where (the subject of this piece), what, to whom and how of alcohol sales are regulated. While some of these regulations are promulgated to protect the public from improper alcohol consumption (e.g., laws against drunk driving or restrictions of consumption for young people), others seem simply focused upon protecting certain merchant types from competition.

This report focuses on one specific prohibition still in place in Maryland – one that has been lifted in virtually all other states – the disallowance of beer and wine sales at chain stores, including grocery stores. Article 2B of the Maryland Code supplies three specific provisions that preclude chain store sales:

- 1) *Explicit Prohibition (§ 9-102) (a-1)* Chain stores, supermarkets, or discount houses.  
A Class A, B, or D beer license, beer and wine license, or beer, wine and liquor license, except by way of renewal, may not be granted, transferred, or issued to, or for use in conjunction with, or upon the premises of any business establishment of the type commonly known as chain stores, supermarkets, or discount houses.
- 2) *MD residency/individuals only (§ 9-101a)*  
A license may not be issued to a partnership, to a corporation, or to a limited liability company, but only to individuals authorized to act for a partnership, corporation, or limited liability company who shall assume all responsibilities as individuals.
- 3) *Not more than one per individual (§ 9-102a)*  
No more than one license provided by this article, except by way of renewal or as otherwise provided in this section, shall be issued in any county or Baltimore City, to any person, or for the life of use of any partnership, corporation,

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<sup>1</sup> Beer sales in grocery stores are legal in 46 states in addition the DC while wine sales are legal in 37 states in addition to DC.

unincorporated association, or limited liability company, in Baltimore City or any county of the State.

Marylanders for Better Beer and Wine Laws commissioned Sage Policy Group, Inc. (Sage), a Baltimore-based economic and policy consultancy, to determine what the economic and fiscal impact of allowing chain stores to sell beer and wine would be. Chain stores encompass supermarkets, club stores, drug stores, and convenience stores.

## **II. Background**

### **A. Maryland's Experience with Beer and Wine Laws**

With a few exceptions of grandfathered chain stores, Maryland currently prohibits the sale of beer and wine at grocery, drug, convenience and warehouse/club stores. Licenses to sell alcohol may only be issued to individuals and at a rate of only one per person. These restrictions bar consumers from buying beer and wine at chain stores – seemingly a natural point of sale since these are the places at which they buy other elements of their meals. The prohibition effectively results in Marylanders being forced to purchase beer and wine at liquor stores, granting these entities substantial market power. The result is that Marylanders pay higher prices and have less income left over for other items, including for debt repayment, food, shelter, and tuition.

In 1978, Maryland reversed a provision that allowed one chain store in each county to sell alcoholic beverages. Subsequent legislative efforts in several counties and statewide to expand alcohol sales to chain stores proved unsuccessful but have grown in frequency over the last decade. Based on Maryland legislative records, what follows is a sample of key events regarding the effort to allow for greater competition and convenience by permitting chain stores to sell wine and beer.

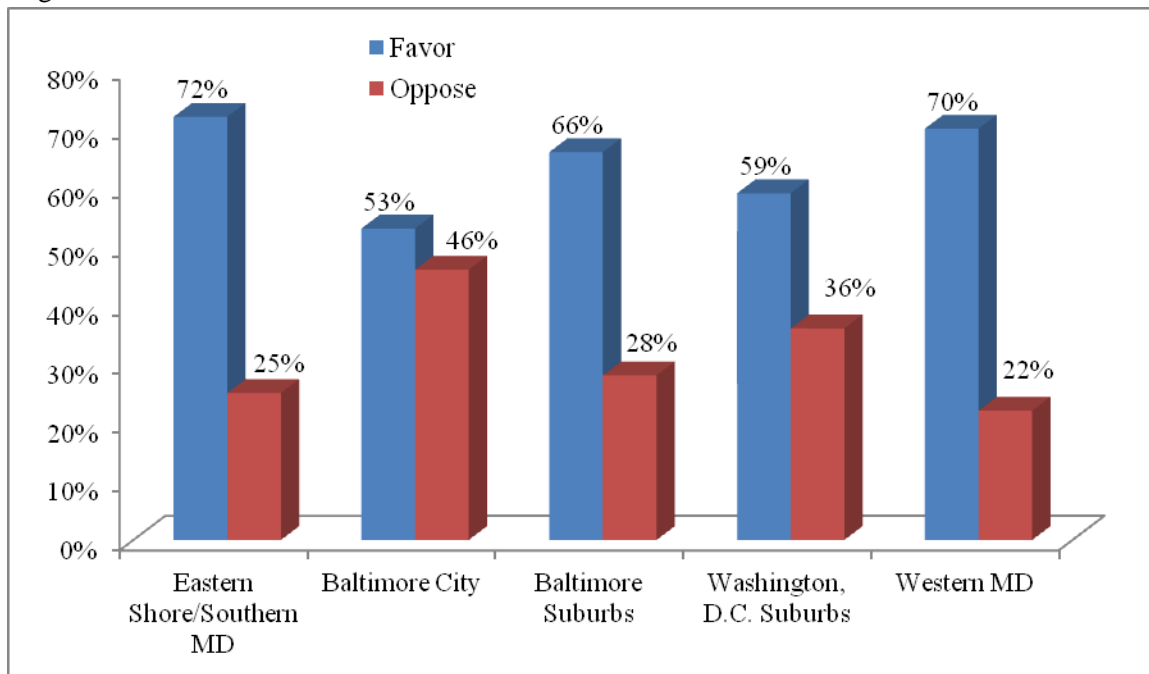
- 1978: Maryland repeals one chain store per County allowance;
- 1978-1981: Grocers fight unsuccessfully to repeal change;
- 2000: Prince George's County chain bill withdrawn;
- 2003: Statewide chain bill dies in committee;
- 2006: Somerset and Dorchester Counties' chain bills die;
- 2008: Prince George's County grocer bill dies in committee;
- 2009: Montgomery & Prince George's Counties' chain bills die;
- 2012: Prince George's County Specialty grocer bill repurposed and 5-store chain bill introduced.

The conclusion that allowing beer and wine sales at chain stores would be good for consumers is not simply one rooted in logic. Marylanders in every region of the state have expressed a

preference for the right to purchase beer and wine beyond the realm of liquor stores that they are likely to frequent for no other purpose.

According to a poll conducted in 2012 by Gonzales Research & Marketing Strategies, Inc., 64 percent of Marylanders would prefer a situation in which they could purchase beer and wine at chain stores.<sup>2</sup> The preference is stronger in more rural areas like Western Maryland and the Eastern Shore, which comes as little surprise since residents there presumably have farther to travel between liquor stores and local grocery or other chain stores. In both Western Maryland and the Eastern Shore, at least 70 percent of those surveyed prefer access to wine and beer at chain stores. Only in Baltimore City, known in part for its abundance of corner liquor stores, is the vote even close. Even there a majority (53%) would prefer the convenience and competition of wine and beer sales at chain stores.

Exhibit 1. Poll on Preference of Voters that Would Like to See Chain Stores Sell Beer and Wine by Region



Source: Gonzales Research & Marketing Strategies, Inc.

## B. Recent Progress with Deregulation

### *Direct Wine Shipping*

In recent years, there has been progress in steadily chipping away at regulations designed in large measure to protect certain merchants from competition. For instance, until very recently, Maryland's own wineries could not ship directly to Marylanders. That has changed. Under a law passed by the Maryland legislature in 2011, Marylanders can now enjoy direct wine

<sup>2</sup> Note that this does not speak to the issue of sales of spirits.



shipping. According to published media reports, Baltimore County's Boordy Vineyards, "Maryland's oldest and best known winery", was an early permit applicant. Until the new law, Maryland was one of only 13 states that did not permit wineries to ship directly to consumers.<sup>3</sup>

### *Corkage Laws*

In 2012, Maryland took another step toward allowing greater consumer freedom. In the most recent legislative session, lawmakers passed a bill that allows corkage, or the practice of bringing one's own wine to restaurants. The practice is often associated with special occasions: occasions that call for the opening of a precious bottle of wine that has been held by families. While Maryland restaurants are now able to offer corkage, they are not required to do so. Allowing corkage brings Maryland into line with the District of Columbia, which has allowed the practice for years, and with Virginia, which legalized the practice in 2011.

### **C. Chain Store Sales of Wine and Beer in Other Jurisdictions**

The availability of beer, wine, and spirits in chain stores varies across the United States. Over the years, an expanding number of states have allowed for expanded distribution of certain alcoholic beverages, particularly beer and/or wine. Today, fully 46 states allow beer and 37 states allow wine to be sold in grocery stores in some capacity or another. In other words, Maryland is one of only four states that disallow chain store sales of wine and beer. The implication is that Marylanders are among the most inconvenienced consumers in the nation along this dimension and also among the most susceptible to higher prices attributable to a lack of retail competition.

Despite stated consumer preferences, Maryland policymakers have been reluctant to permit the sale of beer and wine in chain stores. The primary concern among opponents, including many local liquor retailers and distributors, is that small, independent liquor stores will not be able to compete with larger stores and may be put out of business. The experience of other states indicates that this fear is overstated.

A 2011 study by the Food Marketing Institute (FMI) found that contrary to the expressed concerns of liquor store owners, package stores (liquor stores) have not only been able to compete, but their store populations also continue to increase in most states that allow grocery stores to sell wine.<sup>4</sup> According to the analysis, in 22 of the 34 states and the District of Columbia that allow the sale of wine in grocery stores, the number of package stores increased, while in one other the number remained stable. Moreover, in the states where the number of package stores declined, the number of food stores also declined, indicating that broader economic factors

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<sup>3</sup> *The Sun*, July Bykowicz, June 26, 2011. Accessed at [articles.baltimoresun.com/2011--6-26/bs-md-wine-shipment-20110620\\_1\\_maryland-wineres-winery-owners-direct-wine](http://articles.baltimoresun.com/2011--6-26/bs-md-wine-shipment-20110620_1_maryland-wineres-winery-owners-direct-wine)

<sup>4</sup> Food Marketing Institute. (2011). FMI Wine Study. Available at [http://www.fmi.org/docs/gr-state/fmi\\_wine\\_study.pdf?sfvrsn=2](http://www.fmi.org/docs/gr-state/fmi_wine_study.pdf?sfvrsn=2).

(other than those related to competition from grocery stores) were likely involved in store closings.<sup>5</sup> A summary of this research is provided in Exhibit 2. The period under scrutiny stretched from 2001 to 2009, and therefore encompassed two recessions.

Exhibit 2. Store Count Overview, 2001 to 2009, for States Allowing Wine Sales in Food Stores

|                                    | Number of States | Percent |
|------------------------------------|------------------|---------|
| Number of Package Stores Increased | 22               | 63%     |
| Number of Package Stores Declined  | 12               | 34%     |
| Package Store Count Constant       | 1                | 3%      |
| Total (including Washington D.C.)  | 36               | 100%    |

Source: FMI Wine Study Appendix 1, Adams Wine Handbook 2010, Economic Census of the U.S., U.S. Bureau of Labor Statistics and Stonebridge Research Group LLC.

In certain states, food industry groups and/or state governments have attempted to reduce the impact of new competition on liquor stores by providing certain compensating measures to existing license holders, including limiting the number of licenses for certain geographic zones or allowing current license holders to obtain multiple licenses to expand and diversify their businesses. These types of measures have helped protect existing liquor stores and also have the capacity to add economic value to existing license holders, allowing them to transfer their businesses at higher valuations if they so choose.<sup>6</sup>

In sum, evidence indicates that in most states, independent liquor stores have remained competitive despite competition from chain stores such as groceries. With the right set of public policies in place, these independent stores can add value. Even in the absence of public policy support, competition from grocery and other chain stores may induce independent owners to sell more highly specialized products, which could result in margin improvement. According to the FMI study, “while adapting to a changing economic environment is often difficult, states that have made the change have found their fears preceding the change were unjustified.”<sup>7</sup> There is little reason to believe that Maryland’s marketplace would respond differently.

### III. Methodology: Quantifying the Impact of Allowing Wine and Beer to be Sold in Maryland’s Chain Stores

<sup>5</sup> Food Marketing Institute. (2011). FMI Wine Study. Available at [http://www.fmi.org/docs/gr-state/fmi\\_wine\\_study.pdf?sfvrsn=2](http://www.fmi.org/docs/gr-state/fmi_wine_study.pdf?sfvrsn=2).

<sup>6</sup> Id.

<sup>7</sup> Id.

To quantify economic and fiscal impacts associated with greater convenience and competition, Sage utilized Maryland-specific IMPLAN<sup>8</sup> multipliers to generate estimates of employment, income and output. Employment impacts encompass both full- and part-time workers. Employee compensation encompasses all employee wages and benefits. Output represents the sum total of value-added contributions. Value-added is captured in the form of business sales that take place due to beer and wine sales and secondary impacts produced by the businesses and workers that are indirectly related to beer and wine sales.

To conduct the fiscal portion of the analysis, Sage relied heavily upon publicly available information, including government-published tax rates and budgetary information. Fiscal impacts associated with licenses were projected based in part on proposed rates provided by Marylanders for Better Beer & Wine Laws. These rates are subject to modification. Fiscal impacts have been calculated for the State of Maryland.

### **A. Key Analytical Concepts and Definitions**

#### **i. The need to consider multiplier effects**

The economic activity generated by wine and beer sales generates a multiplier effect that impacts Maryland's economy and expands the benefits created directly by the investment. In the language of economics, these additional economic activities are termed the indirect and induced effects of the jobs, income and sales generated directly by sales.

#### **ii. Defining direct, indirect, and induced effects**

*Direct and Indirect Effects.* The jobs physically located at the chain stores, wineries and breweries are considered direct effects. Indirect effects occur when, for example, the chain stores purchase goods and services from other firms in Maryland (inputs). These businesses purchase everything from materials to accounting and advertising services and lease equipment from local firms. In turn, these suppliers to contractors will buy office supplies and electric power among many other items and services from other local firms. In its totality, this succession of purchases by suppliers and suppliers of suppliers produces indirect effects (often also known as business-to-business purchasing effects).

It should be noted that the model used by Sage attempts to account for every dollar spent, to determine where those dollars were or will be spent and for what purposes. In other words, all of the spending associated with beer and wine sales is integrated into the model, with the

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<sup>8</sup> IMPLAN is the most commonly utilized econometric software for analyses of its type and has emerged as the industry standard for this type of quantification. The model is comprised of economic multipliers that reflect the statistical relationship between various local industries and the likelihood that certain goods and services will be sourced locally as opposed to outside the community. These multipliers are updated each year and Sage purchases model licenses on an annual basis. This study utilizes the most updated parameters.

multipliers assessing the impact of this spending on the local economy given the relationship between various local industries and the likelihood that money spent on goods and services has been or will be spent within the confines of the community.

*Induced Effects.* The wages and income received by the employees of the retailers and local businesses and of the succession of suppliers that is linked to beer and wine sales at chain stores create additional effects. A portion of these wages is spent in Maryland for a broad range of consumer purchases from housing and groceries to entertainment.

The economic activity associated with these purchases is termed the induced effect. Again, the model attempts to account for each dollar that is absorbed by the local labor force and to determine how those dollars are likely to be spent across product and service types. Most importantly, the model's multipliers reflect the likelihood that purchases by households have been or will be made locally as opposed to outside of the community. The higher the share of purchases made locally, the greater are the induced economic effects. It is for this reason that the larger the geographic definition of the study area, the greater the total economic impact. The larger the scope of geographic inquiry, the greater is the likelihood that secondary economic impacts will be captured in the area under consideration.

Direct, indirect, and induced effects can be measured along three dimensions: employment (measured in full-time and part-time jobs), income (measured in dollars), and output or sales of goods and services (measured in dollars). These effects are estimated using proprietary software and a computer model created specifically for this analysis.<sup>9</sup>

The impacts projected in this study can be considered ongoing, annual impacts. So long as the chain stores sales remain in place, one can assume that similar impacts will be generated each year. The ongoing effects are derived from the beer and wine sales themselves. These effects take the form of retail sales and business services provided by retail workers and are measured in terms of direct, indirect, and induced effects.

In addition to economic impacts, the operations of expanded spending at chain stores produces fiscal impacts, defined as new streams of tax revenue for the State of Maryland. For purposes of

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<sup>9</sup> Using IMPLAN data, Sage produced a customized economic and fiscal impact model specific to this analysis. IMPLAN employment multipliers encompass total wage and salary employees as well as self-employed people in the region. Both full-time and part-time workers are measured to create an estimate of annual average jobs. CEW (Covered Employment and Wages) data, Regional Economic Information System (REIS), and County Business Patterns are used in conjunction to create the IMPLAN database because no one data set provides enough information to create a complete set of IMPLAN multipliers. In general, CEW data provide the County level industry structure for IMPLAN, while County Business Patterns' data are used to make non-disclosure adjustments to CEW data, and REIS data are used to control totals (i.e., prevent double-counting). These data are critical to the analysis because the model works to capture the manner in which the beer and wine sellers interact with the local labor market in terms of demand for human capital and need for skill sets not sufficiently supplied by the local workforce.

this economic impact study, the study team utilized hypothetical licensing fees that will be collected both upfront and on an ongoing annual basis. The fiscal impacts also include taxes on the wages and salaries that result from the increased beer and wine sales. The model cannot, however, predict future changes in the State tax code. For instance, if over time the State of Maryland decides to increase the sales tax on alcohol, Sage’s estimates of future fiscal impact will be understated along that dimension.

This is not where the analysis ends. While the introduction of convenience may benefit consumers and those who are now positioned to serve them, it may negatively impact merchants who have heretofore been protected from market forces. Accordingly, the study team also estimated the economic and fiscal impacts of allowing wine and beer to be sold at Maryland chain stores on liquor stores, including in the form of potential lost sales.

### **B. Current Maryland Beer and Wine Sales**

To calculate the potential economic impact of allowing chain stores to sell beer and wine, one must begin by determining the current level of beer and wine consumption. Until recently, the State of Maryland taxed beer and wine on a per gallon basis, which meant that the state’s Comptroller reported beer and wine sales on that basis as opposed to a dollar-value basis.

According to the Maryland State Comptroller, beer wholesale sales approached 99.1 million gallons in 2011 while wine sales were in excess of 14.1 million gallons. While the Comptroller does not provide sales in terms of dollars, the study team used an estimate of dollar sales based on available statistics from proprietary sources that provided national beer and wine sales and the share of Maryland shipments to total national shipments. Exhibit 3 provides an estimate of dollar sales of beer, wine, and spirits in Maryland for FY2011.

Exhibit 3. Estimated On-Premise and Off-Premise Annual Beer and Wine Sales in State of Maryland, FY2011

| <b>Annual Sales</b>  | <b>Gallons Sold (wholesale)</b> | <b>Estimated Retail Dollar Sales</b> |
|----------------------|---------------------------------|--------------------------------------|
| Beer                 | 99,087,797                      | \$1,984,402,506                      |
| Wine                 | 14,146,308                      | \$587,165,936                        |
| Spirits              | 10,317,879                      | \$447,339,649                        |
| <b>Total Alcohol</b> | <b>123,551,984</b>              | <b>\$3,018,908,091</b>               |

Source: Comptroller of Maryland Alcohol & Tobacco Tax Annual Report FY2011, Beer Institute, Wine Institute, Distilled Spirits Council; Sage

Additionally, the Maryland State Comptroller does not breakdown beer and wine sales between on-premise and off-premise licensees. This is important because off-premise licensees often charge much less for alcohol. Sage utilized national statistics to develop an assumption of the share of off-site beer and wine sales relative to on-premise sales. Exhibit 4 provides relevant statistical detail. The initial set of columns indicates the national share of alcohol sales that takes

place off-premise, meaning that the alcohol is not consumed where it is sold. For instance, 80 percent of wine is consumed off-premise, perhaps at home with a family meal or at an assortment of gatherings. The second set of columns reflects dollar sales. Note that the share of off-premise sales falls when they are measured in dollars, a reflection of the fact that the price of wine/beer consumed in restaurants tends to be significantly higher than the cost of wine/beer sold in retail outlets. The estimated cost per gallon for off-premise beer is \$13.89 per gallon, while the price for all beer is \$20.03/gallon in Maryland. The comparable statistics for wine are \$29.05/gallon off-premise and \$41.51/gallon for all sales. The expansion of sales to chain store would produce even lower off-premise prices. The availability of corkage in Maryland also has at least some potential for reducing consumer exposure to on-premise charges.

Exhibit 4. National Off-Premise Share of Alcohol Sales, 2009



Source: Beverage Information Group 2010 Liquor, Wine and Beer Handbooks

Exhibit 5. Estimated Annual Off-Premise Licensee Beer and Wine Sales in Maryland, FY2011

| Annual Sales         | Gallons Sold (wholesale) | Estimated Retail Dollar Sales |
|----------------------|--------------------------|-------------------------------|
| Beer                 | 74,315,848               | \$1,031,889,303               |
| Wine                 | 11,317,046               | \$328,812,924                 |
| Spirits              | 7,944,767                | \$210,249,635                 |
| <b>Total Alcohol</b> | <b>93,577,661</b>        | <b>\$1,570,951,862</b>        |

Source: Comptroller of Maryland Alcohol & Tobacco Tax Annual Report FY2011, Beer Institute, Wine Institute, Distilled Spirits Council; Sage

Reflected in Exhibit 6 are relevant production statistics for local breweries and wineries. One of the beneficiaries of expanded access to wine and beer will be local producers. The figure below provides a sense of the baseline of economic activity to be positively impacted.

Exhibit 6. Local Maryland Brewery and Winery Production

| <b>Total Production for Wholesale and Direct to Retailers</b> | <b>Gallons/<br/>Percent</b> | <b>Estimated<br/>Retail Dollar Sales</b> |
|---|-----------------------------|--|
| Local Brewery Beer Production for Wholesale                   | 1,045,959                   | \$27,688,407                             |
| Share of Production Revenues from Sales Within State          | 1.06%                       | 1.40%                                    |
| Local Winery Production Revenues for Wholesale and Retail     | 213,419                     | \$13,541,572                             |
| Share of Production Revenues from Sales Within State          | 1.51%                       | 2.31%                                    |
| <b>Production for Off-Premise Sales</b>                       | <b>Gallons/<br/>Percent</b> | <b>Estimated<br/>Retail Dollar Sales</b> |
| Local Brewery Beer Production for Wholesale                   | 784,469                     | \$19,197,295                             |
| Share of Production Revenues from Sales Within State          | 1.06%                       | 1.86%                                    |
| Local Winery Production Revenues for Wholesale                | 170,735                     | \$9,479,100                              |
| Share of Production Revenues from Sales Within State          | 1.51%                       | 2.88%                                    |

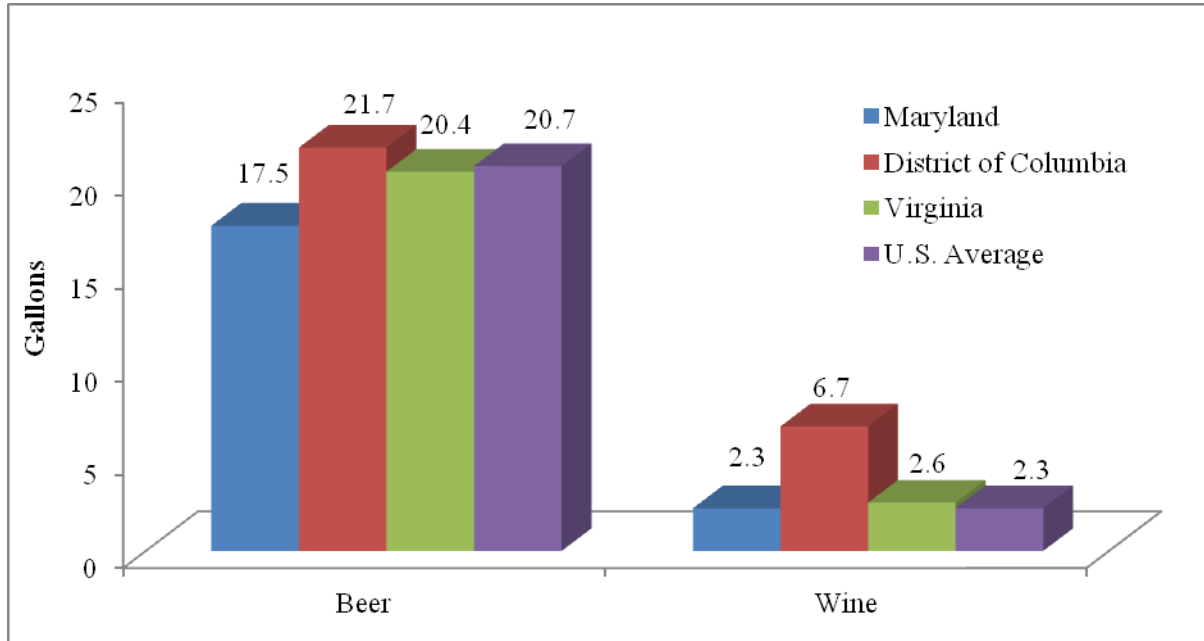
Source: Comptroller of Maryland Alcohol & Tobacco Tax Annual Report FY2011; The Jacob France Institute Economic Impact Study of the Maryland Wine Industry; Brewers Association; Sage

Central to this analysis is the fact that Maryland’s closest neighbors, the District of Columbia and Virginia, consume more beer and wine than Marylanders on a per capita basis. This state of affairs is not simply a reflection of tastes and preferences. Marylanders account for more than 40 percent of commuters into the District of Columbia. Chain store sales of wine and beer are allowed in the District, allowing Marylanders who work there to take advantage of enhanced access and lower prices. Therefore, with greater beer and wine availability in Maryland, Maryland residents currently purchasing their beer and wine from Washington, D.C. retailers are more likely to purchase these products from a retailer located in Maryland.

Exhibit 7 reflects the relative dearth of consumption per capita in Maryland versus the nation in terms of both beer and wine. Despite Maryland’s higher household incomes, its consumption of wine falls far short of the District’s and is below Virginia’s, a state with similar demographics. The implication of these data is that enhanced access through chain stores would trigger substantial economic and fiscal impacts.



Exhibit 7. Select Area Consumption per Capita, 2010



Source: The Beer Institute; The Wine Institute

#### IV. Economic Impacts

By allowing beer and wine sales at chain stores in Maryland, evidence from other states indicates that there would be a net increase in total sales resulting in more jobs. Current licensees will take the opportunity to develop more specialties and offer a better variety than the products many currently supply. The study team assumed that chain store sales would sell cheaper and more widely available products, allowing package stores to provide more specialty products – for instance, more specialty beers and wines of unusual vintage. These specialty products could potentially mean more sales of local brewery and local winery products. While those figures are not calculated in the impacts below, there is potential for expanded demand at local breweries and wineries as the retail marketplace more readily embraces less conventional product mixes.

Enhanced product availability at chain stores and associated convenience will encourage a level of sales of beer and wine that would not otherwise take place in Maryland. Increased accessibility in Maryland will also increase regional market share, including market share secured from the District of Columbia and Virginia. These markets presently allow chain store sales and therefore tend to be associated with lower prices.

Sage projects that the availability of beer at Maryland’s chain stores will result in a net increase of 5.5 percent in total annual consumption in Maryland, closing one-third of the per capita consumption gap between Maryland and Virginia in the process. With respect to wine, Sage



projects a net increase in wine sales of 6.5 percent per annum, which would close the per capita consumption gap between Maryland and Virginia by half (though not eliminate it).

While sales of wine and beer would naturally rise at Maryland's chain stores, they would decline marginally at liquor stores. Sage estimates that beer sales and wine sales at current off-premise license holders (e.g., liquor stores) will decline 1.1 percent and 1.6 percent in dollar terms, respectively. This translates into \$13,624 in lost beer sales per annum and \$3,489 in wine sales per annum per current off-premise license holder.

One way to soften any potential impact on current off-premise licensees would be to allow them to ship merchandise directly to customers. When the Maryland legislature passed the bill to allow wineries to engage in direct shipping, a number of Maryland retailers advocated for being able to ship as well. Other states allow domestic retailers to ship products intrastate, while others allow interstate shipping. The capacity to ship would create economies of scale and greater profitability among current licensees, perhaps more than offsetting the impact of competition from chain stores.

From a macroeconomic perspective, any loss experienced by current licensees due to chain store sales will be more than countervailed. Sage estimates that if allowed to compete, chain stores will generate an estimated \$86.1 million in beer sales and \$21.4 million in wine sales – a total of \$107.5 million in expanded sales volume, part of which represents demand repatriated from the District of Columbia. This sales estimate represents the heart of the analysis related to estimated employment, income and fiscal impacts described below. Again, it should be noted that these sales estimates do not account for possible market responses by liquor stores, which could have the effect of reducing sales losses.

Based on IMPLAN multipliers, which indicate that each \$220,000 of wine/beer sales produces roughly one direct job, 362 direct jobs will be created by expanded sales activity. Based on current ratios, approximately 76 (21.1 percent) of those direct jobs will be held by union members. The number of jobs created directly and secondarily by expanded sales activity is approximately 500. In terms of FTEs (full-time equivalents), this translates into 435 jobs. Associated employee compensation would be \$17 million, of which \$14 million would be in the form of wages and salaries. This translates into nearly \$28,000 per job and more than \$32,000 for each FTE. Business sales in Maryland would be expanded by just over \$80 million directly and \$99.2 million when secondary impacts are fully considered. These results are summarized in Exhibit 9.

Exhibit 8. Projected Annual Change in Beer and Wine Sales

| <b>Beer Sales</b>   | <b>Gallons</b>   | <b>Dollars</b>      |
|---|------------------|---------------------|
| Projected Net Decrease in Sales at Current Off-Premise License Holders                        | 2.5%             | 1.1%                |
| Projected Increase in Sales at Chain Stores   | 7,296,070        | \$86,111,195        |
| Sales Increase Generated from Market Share Secured from Current License Holders               | 2,429,591        | \$21,511,649        |
| Sales Increase Generated from Market Share Secured from Out-of-State Retailers                | 1,824,839        | \$21,537,489        |
| Sales Increase Generated from New Demand  | 3,648,583        | \$43,062,058        |
| Projected Increase in Local Brewery Sales<br>(assuming unaltered market share)                | 57,777           | \$1,413,896         |
| <b>Projected Net Change in Sales<br/>(assumes 20 percent less than current gallon prices)</b> | <b>5,473,421</b> | <b>\$64,599,546</b> |
| <b>Wine Sales</b>   | <b>Gallons</b>   | <b>Dollars</b>      |
| Projected Net Decrease in Sales at Current Off-Premise License Holders                        | 3.6%             | 1.6%                |
| Projected Increase in Sales at Chain Stores   | 1,229,806        | \$21,438,960        |
| Sales Increase Generated from Market Share Secured from Current License Holders               | 409,525          | \$5,355,719         |
| Sales Increase Generated from Market Share Secured from Out-of-State Retailers                | 461,293          | \$8,041,620         |
| Sales Increase Generated from New Demand  | 461,293          | \$8,041,620         |
| Projected Increase in Local Winery Sales<br>(assuming unaltered market share)                 | 13,919           | \$772,753           |
| <b>Projected Net Change in Sales<br/>(assumes 40 percent less than current gallon prices)</b> | <b>922,585</b>   | <b>\$16,083,241</b> |

Source: Sage

Exhibit 9. Economic Impact of Chain Store Sales of Beer and Wine in Maryland

| <b>Type of impact</b> | <b>Full &amp; Part-Time Jobs</b> | <b>Employee Compensation (\$millions)</b> | <b>Employee Wages &amp; Salaries (\$millions)</b> | <b>Business Sales (\$millions)</b> |
|-----------------------|----------------------------------|---|---|------------------------------------|
| Direct effects        | 362.1                            | \$11.2                                    | \$9.2   | \$80.7                             |
| Indirect effects      | 43.5                             | \$2.0                                     | \$1.7   | \$6.5                              |
| Induced effects       | 94.1                             | \$3.8                                     | \$3.2   | \$12.0                             |
| <b>Total</b>          | <b>499.7</b>                     | <b>\$17.0</b>                             | <b>\$14.0</b>                                     | <b>\$99.2</b>                      |

Source: Sage

Exhibit 10 reflects associated fiscal impacts. State revenues would be expanded by \$22.6 million/annum. There would also be nearly \$72 million in upfront licensing fees produced based on tax/fee rates suggested by Marylanders for Better Beer and Wine Laws.

Exhibit 10. Fiscal Impact of Chain Store Sales of Beer and Wine in Maryland

| <b>One-Time Upfront Fiscal Impact</b>         | <b>Taxable Amount</b> | <b>Tax/Fee Rate</b> | <b>Fiscal Impact (\$millions)</b> |
|---|-----------------------|---------------------|-----------------------------------|
| <i>Upfront Licensing</i>                      |                       |                     |                                   |
| Club  | 32                    | \$250,000           | \$8.0                             |
| Convenience                                   | 558                   | \$15,000            | \$8.4                             |
| Drug  | 368                   | \$25,000            | \$9.2                             |
| Supermarket                                   | 463                   | \$100,000           | \$46.3                            |
| <b>Total Upfront Licensing Fees</b>           |                       |                     | <b>\$71.9</b>                     |
| <b>Average Annual Fiscal Impact</b>           | <b>Taxable Amount</b> | <b>Tax/Fee Rate</b> | <b>Fiscal Impact (\$millions)</b> |
| <i>Annual Renewal Licensing Fees</i>          |                       |                     |                                   |
| Club  | 32                    | \$25,000            | \$0.8                             |
| Convenience                                   | 558                   | \$2,500             | \$1.4                             |
| Drug  | 368                   | \$2,500             | \$0.9                             |
| Supermarket                                   | 463                   | \$25,000            | \$11.6                            |
| <b>Total Annual Renewal Licensing Fees</b>    |                       |                     | <b>\$14.7</b>                     |
| State Alcohol Tax Revenues (\$millions)       | \$80.7                | 9.0%                | \$7.26                            |
| State Income Tax Revenues (\$millions)        | \$14.2                | 4.75%               | \$0.7                             |
| <b>Total Annual State Government Revenues</b> |                       |                     | <b>\$22.6</b>                     |

Source: Marylanders for Better Beer and Wine Laws; Sage

## V. Conclusion

The availability of beer, wine, and spirits in chain stores varies across the United States. Over the years, an expanding number of states have allowed for expanded distribution of certain alcoholic beverages, particularly beer and/or wine. Today, fully 46 states allow beer and 37 states allow wine to be sold in grocery stores in some capacity or another. In other words, Maryland is one of only 4 states that prohibit chain store sales of either wine or beer. The result is that Marylanders pay higher prices and have less income left over for other items, including for debt repayment, food, shelter, and tuition.

Evidence from other states indicates that a repeal of the prohibition would result in a net increase in total sales of beer and wine in Maryland resulting in more jobs and more tax revenue for the State. Current licensees would have the opportunity to offer more specialized products to differentiate themselves from chain stores, including by purchasing more substantial amounts of locally produced wine and beer.

Sage estimates that the net increase in beer sales will be an estimated \$64.6 million in beer sales and \$16.1 million in wine sales – a total of \$80.7 million in expanded sales volume for chain stores, part of which reflects demand that will be repatriated from the District of Columbia. Based on IMPLAN multipliers, which indicate that each \$220,000 of wine/beer sales produces roughly one direct job, the number of jobs created directly and secondarily via expanded sales activity would approach 500, or 435 in terms of full-time equivalent jobs (FTEs). Associated employee compensation would be \$17 million, of which \$14 million would be in the form of wages and salaries. This translates into nearly \$28,000 per net new job and more than \$32,000 for each new FTE.

Annual business sales in Maryland would be expanded by just over \$80 million directly and by \$99.2 million when secondary impacts are fully considered. Importantly, State revenues would be expanded by \$22.6 million/annum. There would also be nearly \$72 million in upfront licensing fees produced based upon tax/fee rates suggested by Marylanders for Better Beer and Wine Laws.