

2018

San Diego County Economic Impact of **Wineries**



SAN DIEGO COUNTY
VINTNERS ASSOCIATION

This study was underwritten, in part, by the San Diego County Vintners Association (SDCVA).
All conclusions, errors and omissions are the sole responsibility of the author. We thank SDCVA for their support.

Executive Summary

In 2017, we developed a comprehensive profile of the San Diego County wine industry. In an effort to build on this body of research and bring greater public awareness and insight into the growing industry, we have updated our analysis for 2018, using survey data, economic modeling software, and local, state and federal data sources.

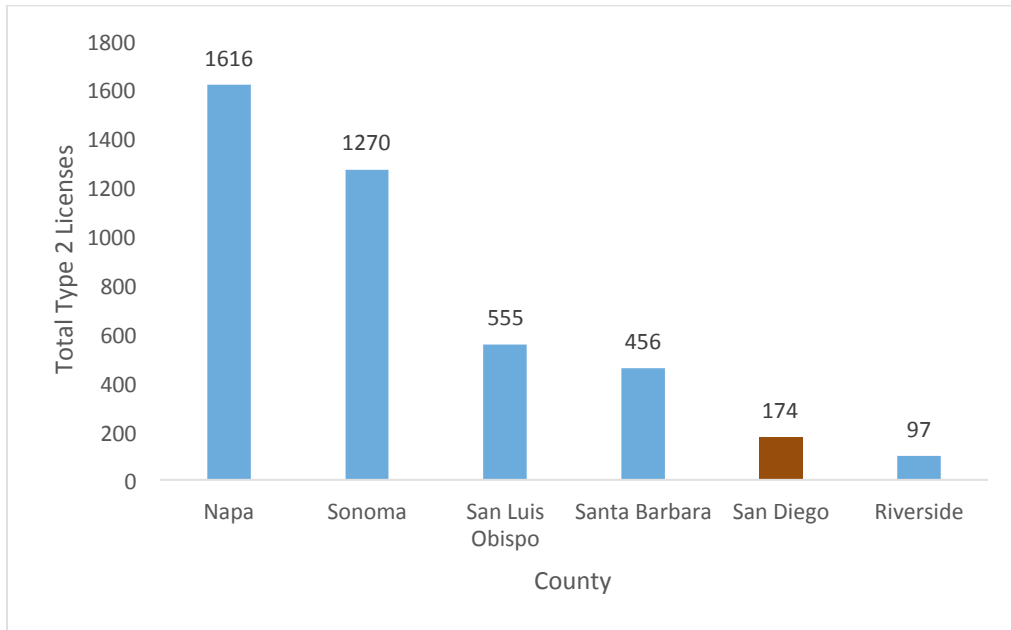
Overall, we found that:

- Using economic modeling software, we found that San Diego wineries generated a \$50 million economic impact in the region in 2017, a significant increase from 2016 figures (\$30.4 million).
- Overall, we estimate that county wineries generated more than \$26,134,100 in gross sales in 2017, a 9.4% increase from 2016 sales (\$23,873,100).
- From evaluating historical winegrower license data from the California Department of Alcoholic Beverage Control (ABC), San Diego County is currently experiencing seven years of record growth. 2016 was an all-time high for new wineries opening in San Diego (26), followed closely behind by 2017 (23). Preliminary 2018 data shows this growth streak will be extended another year.
- Survey responses and county agricultural data identify the 2017 harvest season as measurably productive. More acres were harvested for wine grapes in San Diego County last year (1,210 acres) than ever before. In all, 2,783 tons of wine grapes were produced in the region, generating a total value of \$3.85 million, an across-the-board increase compared to 2016.
- More survey respondents gave high satisfaction marks for the 2017 harvest yield and quality compared to the 2016 harvest. A large number of “average” yield responses (72%) given in 2016 shifted this year to “above average”, increasing the response rate from 8% to 46%, respectively. “Good” harvest quality responses (57% in 2016) shifted partly to “excellent” responses, increasing its share from 2016 (30% to 38%, respectively).
- Similar to our prior survey findings in San Diego County, we found that more than forty-five wine varietals were grown, cultivated, and/or sold in 2017. Among the top ten wine varietals reported by respondents, Cabernet Sauvignon and Syrah again tie for first place, with Merlot and Sangiovese following close behind. New varietals which emerged this year in the top ten list were Grenache, Tempranillo, and Mourvèdre, replacing Viognier, Petit Syrah & Sauvignon Blanc.
- Overall, winery jobs and wages grew in San Diego County in 2017. Based on survey responses, we project that total industry jobs in the region increased from 519 in 2016, to 557 in 2017. Most of the growth is due to a significant increase (26%) in hospitality and tasting room jobs. We also found that industry jobs support 222 additional non-industry jobs in the region.
- Comparing regional industry wages to benchmark regions in California, we find that San Diego winery wages have grown significantly (35%) since 2016, surpassing wages in Riverside County, and now matching average wages in Santa Barbara (\$27,823 in 2016 to \$37,544 in Q1 2018). We see this as a good sign of continued industry development, as well as growth.
- Once again, we asked survey respondents to rank the top five issues that are impediments to growth for their business. Identical to last year’s responses, the top #1 and #2 choices by respondents this year were “Permits/local regulation” and “labor costs,” respectively. It is worthwhile to note that “Permits/local regulation” received both the highest number of #1 rankings and #2 rankings from respondents.

2018 Industry Overview

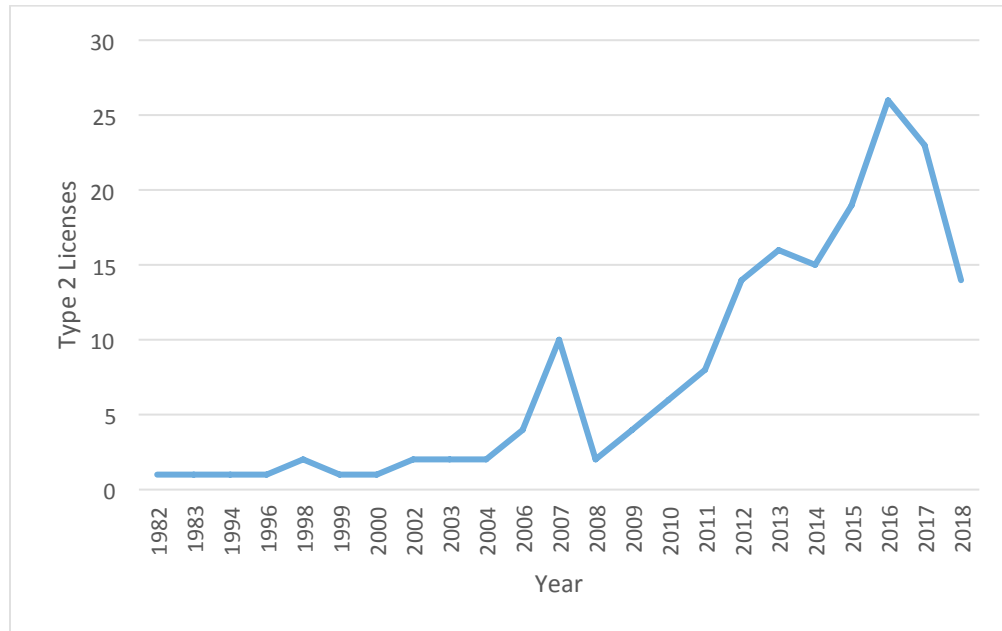
As of June 2018, there are 174 total active winegrower licenses in San Diego County, an increase of ten since June 2017 (164). Among the five benchmark counties we are tracking, San Diego County winegrowers maintain their position from 2016, steadily ahead of Riverside County, but significantly behind Napa, Sonoma, and Central Coast counties (Chart 1).

Chart 1: Total Active Type 2 Licenses, by County, June 2018



Evaluating historical winegrower license data from the California Department of Alcoholic Beverage Control (ABC), San Diego County is currently experiencing seven years of record growth (Chart 2). 2016 was an all-time high for new wineries opening in San Diego (26), followed closely behind by 2017 (23). As of October 2018, 14 new licenses have been issued this year, matching the 2012 tally, but with a number of pending license approvals, we project new licenses issued in 2018 will continue to grow, extending the growth streak.

Chart 2: First Year of Issuance for Type 2 ABC Winegrower Licenses in San Diego County, 1982-2018

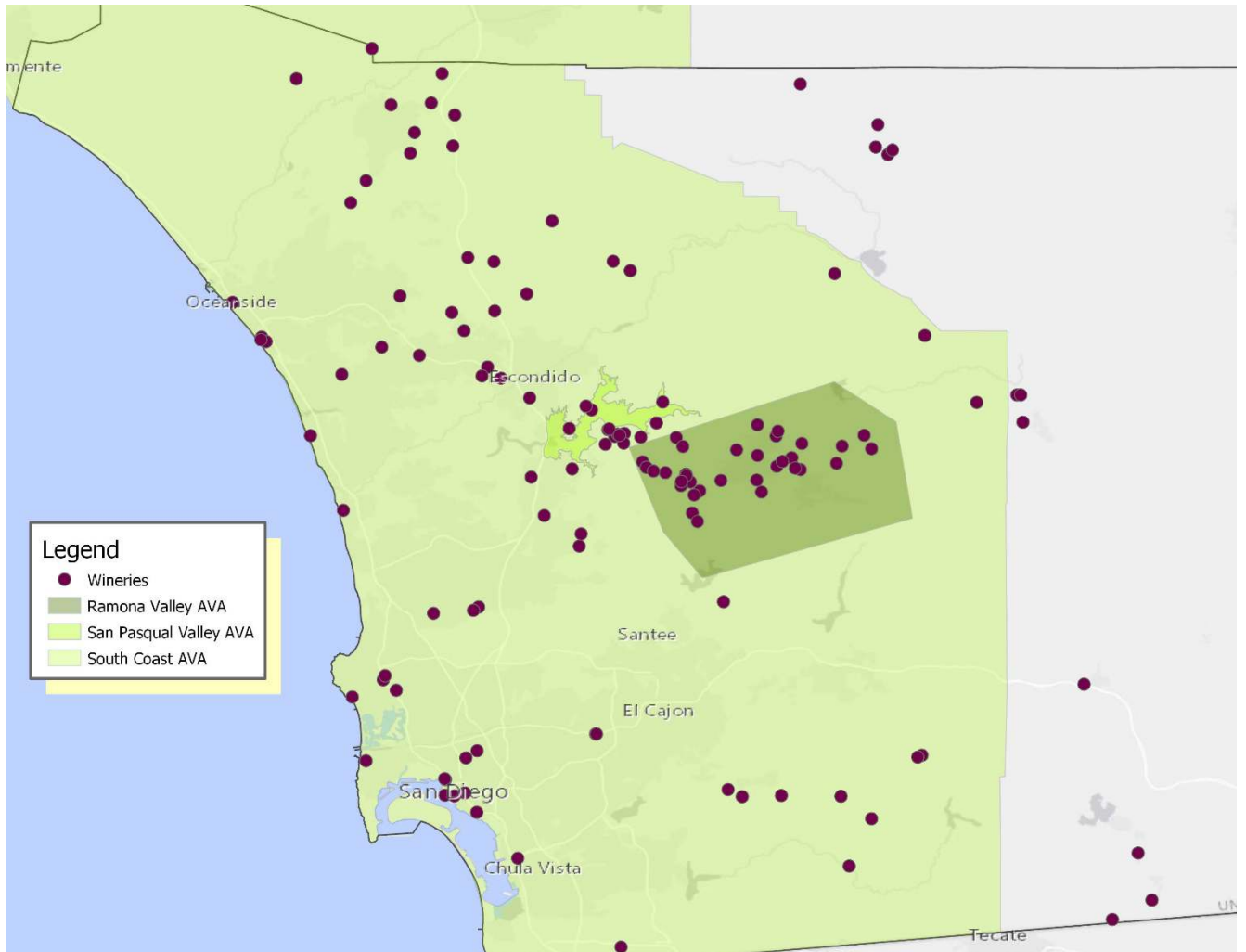


We next used ABC license records to develop a profile of active winery owners. We verified whether a license holder was an active, operating winery open to the public through Internet research, the SDCVA member directory, and by contacting individual businesses. We also eliminated inactive establishments and non-wineries from our list. Overall, we identified 115 active wineries in San Diego County.¹

San Diego County is home to three distinct wine growing regions that are federally recognized as American Viticultural Areas (AVA) – San Pasqual Valley, Ramona Valley, and the South Coast, which stretches from San Bernardino to the US-Mexican border. For illustration purposes, we mapped all 115 active wineries, including their satellite tasting rooms, and all three AVAs (Figure 1).

¹ This figure is different from the total Type 2 license count (174) for San Diego County, as the license count includes duplicate licenses, wineries that are no longer operating, and wineries that are licensed but have not begun to operate, or have not establish a tasting room open to the public. It also includes cider and mead producers.

Figure 1: Wineries in San Diego County, 2018



2018 Survey

Similar to 2017, this year we again partnered with the San Diego County Vintners Association to electronically distribute an 18-question survey to winery owners in the region. Survey responses were collected August 15th to 28th. In total, we received 39 responses, generating a 34% response rate. This rate is slightly higher than the response rate we received for the 2017 survey (32%).

To verify the quality and representation of our sample to the overall wine sector in San Diego County, we looked at three factors: 1) the type of winery operated (urban winery, major use permit, under the county agricultural zone ordinance); 2) the geographic location of the winery; 3) the first year when the winegrower license was issued. In all three cases, we found our sample and total wineries in the region to be highly similar in composition. This suggests that the survey sample has a strong degree of representation of the views and experiences of the overall San Diego winery sector.

Sales & Economic Impact

Similar to 2017, we asked survey respondents this year to indicate their total estimated gross sales for 2017, and the year-to-year change rate in sales from 2016 to 2017. We took sales data and extrapolated with conservative estimates to determine the total sales for wineries countywide. Overall, we estimate that county wineries generated more than \$26,134,100 in gross sales in 2017, a 9.4% increase from 2016 sales (\$23,873,100).

It is important to note that while most businesses experienced high single digit or double-digit year-over-year sales increases, some respondents reported flat or negative sales. As a result, the average year-over-year sales rate was 26%, a downward shift from record sales growth in the prior cycle (88%). More data is needed to make broader conclusions, but it is likely that, given the high number of new wineries since 2010, that the 2015-2016 record sales growth was a one-time phenomenon, tempering as the industry becomes more established.

In order to evaluate the economic impact of San Diego County wineries in 2017, we used IMPLAN, a leading regional “input/output” economic modeling software tool. Input/output models are an econometric technique that explore economic relationships within a designated geography; in this case, San Diego County.

An “economic impact” or “multiplier effect” is created when new dollars are recirculated in an economy, indirectly supporting more jobs and additional business activities. In the economic world, “indirect effects” 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 effects” refer to the impacts associated when workers spend their wages on goods and services (and, in turn, the associated impacts as these expenditures continue to circulate through a local economy).

Using IMPLAN, we calculated the economic impact of industry sales and workforce in the San Diego region. Overall, we found that San Diego wineries generated a \$50 million economic impact in the region in 2017, a significant increase from 2016 (\$30.4 million). We also found that industry jobs support 222 additional jobs in the region (Table 1).

To put these figures in context, in 2016, the winery industry in Temecula Valley generated a \$78 million regional economic impact for Riverside County.²

² Temecula Valley Southern California Wine Country. Press Release. January 8, 2017. Accessed October 20, 2018. <https://www.temeculawines.org/media/press-releases.php?press_id=36>.

Table 1: Economic Dynamics of San Diego County Wineries, 2017

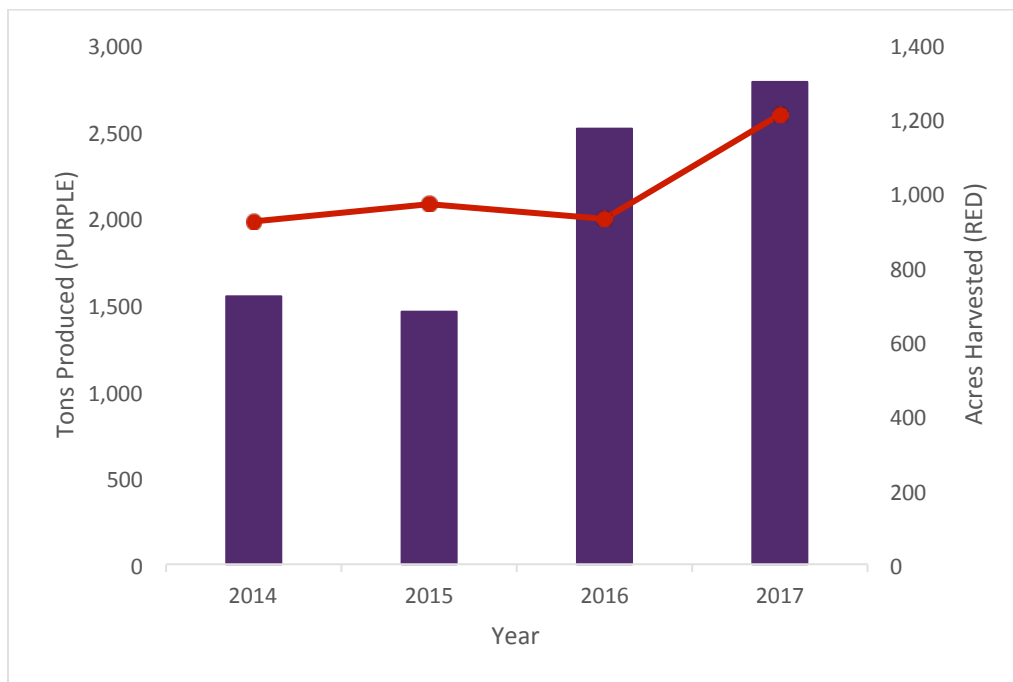
Impact Type	Employment	Wages (\$)	Economic Impact (\$)	Sales (\$)
Direct Effect	557	19,569,478	31,969,839	26,134,100
Indirect Effect	96	4,666,268	7,178,001	12,245,171
Induced Effect	126	5,958,491	10,937,394	17,713,789
Total Effect	779	30,194,237	50,085,233	56,093,061

Harvest

Survey responses and data from the San Diego County Agriculture, Weights and Measures Department identify the 2017 harvest season as measurably productive. More acres were harvested for wine grapes in San Diego County last year (1,210 acres) than ever before. In all, 2,783 tons of wine grapes were produced in the region, generating a total value of \$3.85 million, an across-the-board increase compared to 2016 season levels (Chart 3).

To be sure, prior seasons have yielded a greater tonnage, and greater crop value than 2017, but we benchmark industry growth from acres harvested (value and production levels vary based upon weather, rainfall, and market conditions). Considering that, in 2009, only 489 acres were harvested for wine grapes, the 2017 harvest is a clear indication that the 2010 passage of the tiered county winery ordinance is facilitating continued industry investment and growth.

Chart 3: Wine Grape Acres Harvested and Tons Produced in San Diego County, 2014-2017



To put the 2017 regional wine grape harvest in perspective, more tons of wine grapes were produced (2,783 tons) last year in San Diego County than peppers (2,704), limes (1,046), and Lamb-Hass avocados (1,600).³

More survey respondents gave high satisfaction marks for the 2017 harvest yield and quality compared to the 2016 harvest. A large share of “average” yield responses (72%) given in 2016 shifted this year to “above average”, increasing the response rate from 8% to 46%, respectively (Chart 4). “Good” harvest quality responses (57% in 2016) shifted partly to “excellent” responses, increasing its share from 2016 (30% to 38%, respectively) (Table 2).

Chart 4: Harvest Yield

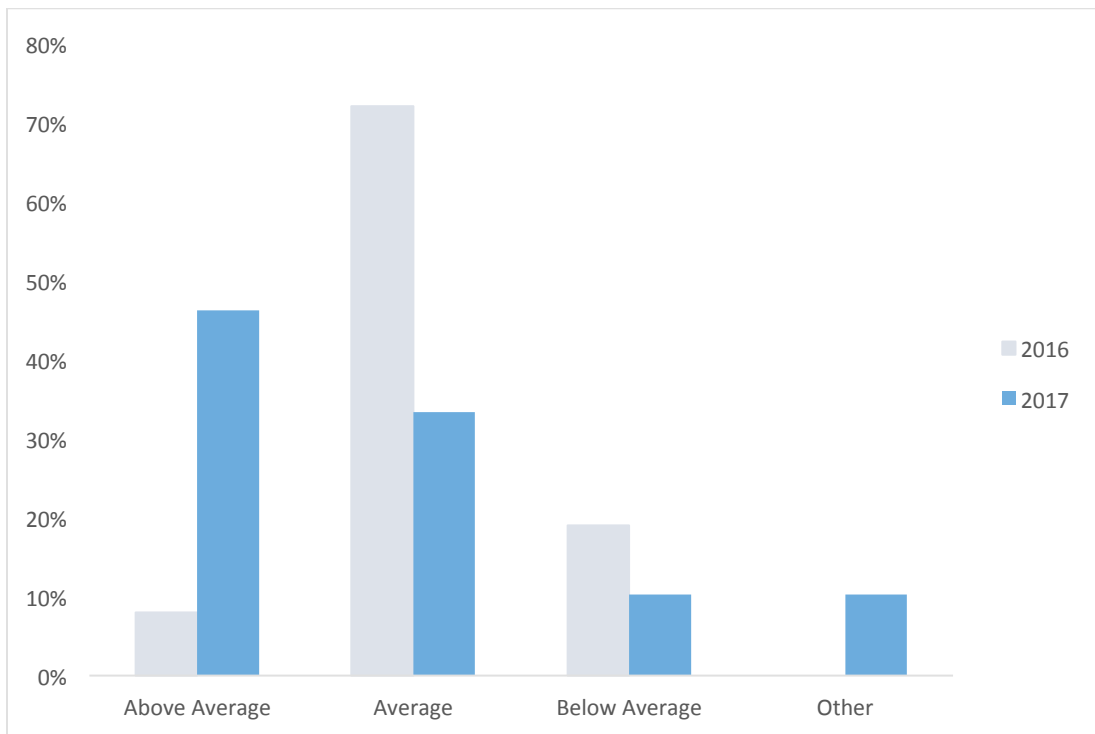


Table 2: Harvest Quality

Answer Choice	2016	2017
Excellent	30%	38%
Good	57%	38%
Average	13%	13%
Below Average	0%	5%
Poor	0%	5%

³ Source: 2017 Crop Report, San Diego County.

Looking at wine production, the majority (55%) of respondents indicated they produced less than 1,000 cases of wine in 2017.⁴ In addition, roughly a quarter (26%) produced 1,000-2,500 cases, 13% produced 2,501-5,000 cases, and 5% produced 7,501 cases or more.

Similar to our prior survey findings, we found that more than forty-five wine varieties were grown, cultivated, and/or sold in 2017. Among the top ten wine varieties reported by respondents, Cabernet Sauvignon and Syrah again tie for first place, with Merlot and Sangiovese following close behind (Table 4). New varieties which emerged this year in the top ten list were Grenache, Tempranillo, and Mourvèdre, which replaced Viognier, Petit Syrah and Sauvignon Blanc. It is too soon to know whether this is a marketplace shift, or due to participation variance in the sample population.

Table 3: Top 10 Wine Grape Varietals Grown, Cultivated and/or Sold in 2017

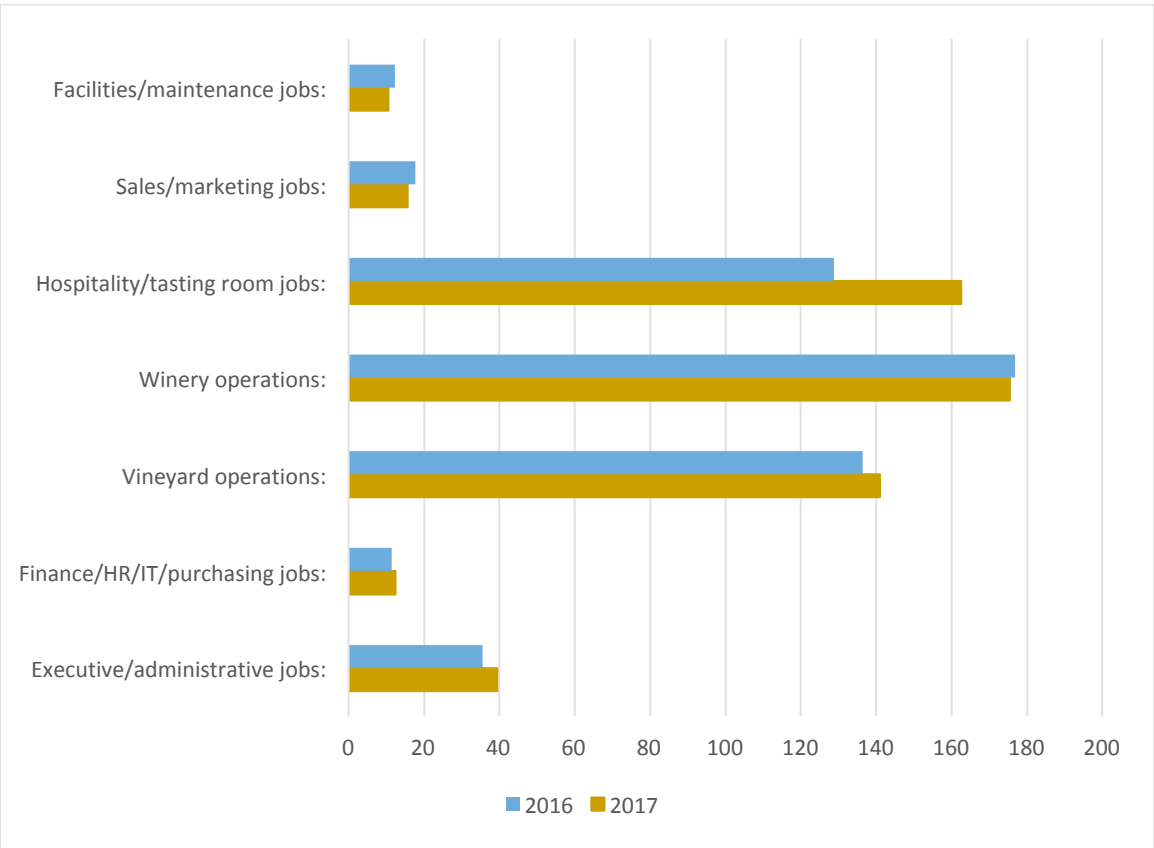
Varietal	% Response
Cabernet Sauvignon	39%
Syrah	39%
Merlot	36%
Sangiovese	31%
Zinfandel	31%
Cabernet Franc	28%
Grenache	28%
Malbec	28%
Tempranillo	25%
Mourvèdre	22%

Workforce, Wages & Training

Overall, winery jobs and wages grew in San Diego County in 2017. Based on survey responses, we project that total industry jobs in the region increased from 519 in 2016, to 557 in 2017 (Chart 5). Most of the growth is due to a significant increase (26%) in hospitality and tasting room jobs. While we did identify marginal reductions in three occupational categories, these changes are more likely caused by variances in survey participation more than changes in the overall workforce. More data is required to make further determinations.

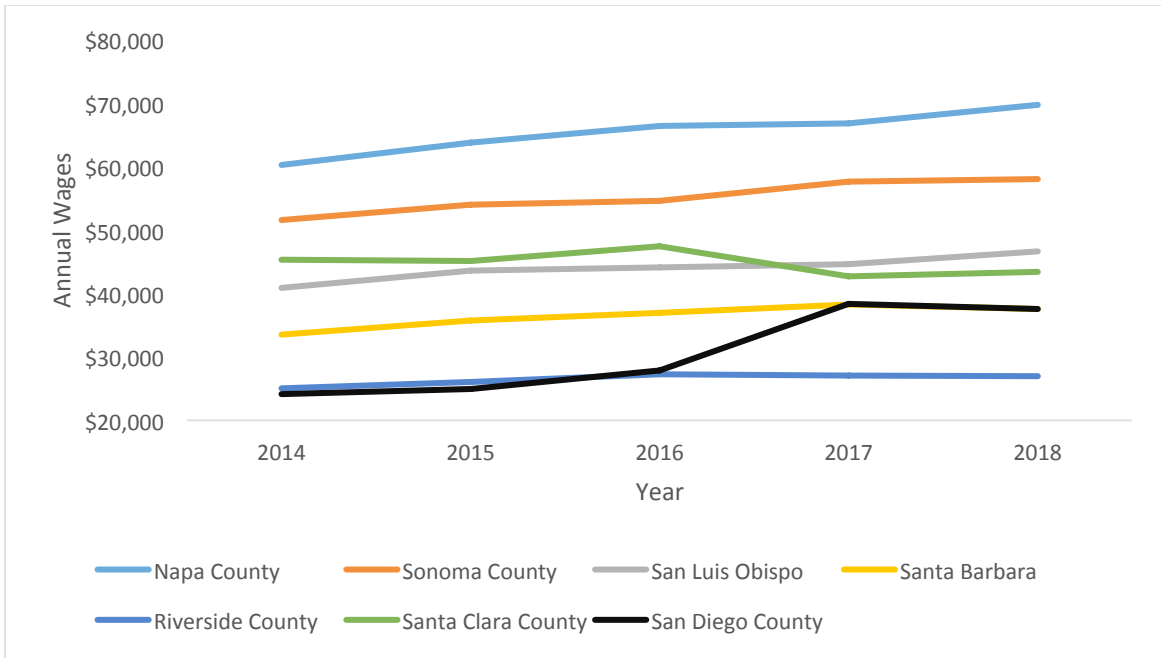
⁴ Case = 2.4 gallons. The production includes all cases of wine, regardless of whether or not yet bottled.

Chart 5: San Diego County Wine Industry Workforce, by Occupation, 2016-2017



To compare regional industry wages to benchmark regions in California (Napa, Sonoma, San Luis Obispo, Santa Barbara, Riverside, Santa Clara County), we obtained county-level occupational employment and wage data from the U.S. Department of Labor’s Bureau of Labor Statistics. Indicated in dark blue in Chart 5, we find that San Diego winery wages have grown significantly (35%) since 2016, surpassing wages in Riverside County, and now matching average wages in Santa Barbara (\$27,823 in 2016 to \$37,544 in Q1 2018). We see this as a good sign of continued industry development, as well as growth.

Chart 6: Industry Wages, by County, 2014-2018 (Q1)



In our 2017 report, we noted that, in partnership with the San Diego County Vintners Association, Cuyamaca College offers a five-course viticulture apprenticeship program, to help local winery owners fill a growing need for skilled industry labor. Known as the San Diego Viticulture Technician Apprentice Program (SDVTAP), the program teaches skills in areas such as vineyard maintenance, grape processing, wine chemistry, and winery maintenance.⁵ Students are required to complete 1,500 hours annually in a paid two-year apprenticeship position.

SDVTAP was established in 2016 and has already established meaningful industry inroads. Fifteen employers have participated in the program, twelve of which are recognized as training sites. As of October 2018, the program has enrolled fourteen apprentices, six of which are currently active. In total, apprentices have completed 10,050 hours of on the job training through SDVTAP. Apprentices have become certified in forklift operation and responsible alcohol services. The program may expand to other community colleges in the region.

Public Priorities

Once again, we asked survey respondents to rank the top five issues that are impediments to growth for their business. For comparative purposes, we used the same thirteen answer choices we surveyed on last year, which was generated from interviews with winery owners and market research. We tabulated the responses, and created a hierarchical index, weighting the responses based upon rankings (Table 5). The higher the index score, the more pressing the issue is to business growth.

Identical to last year’s responses, the top #1 and #2 choices by respondents this year were “Permits/local regulation” and “labor costs,” respectively. It is worthwhile to note that “Permits/local

⁵ More information is available at the SDVTAP website, www.sdvtap.org.

regulation” received both the highest number of #1 rankings and #2 rankings from respondents. Interestingly, “Water rates/supply” moved up the index from 13th place to #5, and “groundwater/runoff rules” dropped from #3 to ninth place. It is interesting to note that local, state and federal regulation now comprise the 1st and 3rd spots on the index, suggesting a greater need for industry advocacy and a focus on regulatory change.

Table 4: Impediments to Industry Growth Index (Top Five)

Issue	Index Score	Sample
Permits/local regulation	83	22
Labor costs	61	21
State/federal regulation	56	19
Marketing	50	15
Water rates/supply	44	14
Talent/labor supply	42	15
Access to capital	41	13
Distribution	34	10
Groundwater/runoff rules	32	10
Availability/price of inputs (viticulture supplies/equipment)	30	10
Land/space/available real estate	23	7
Non-San Diego market competition	15	6

Tourism

Finally, we looked at tourism, and its impact on industry sales. Overall, we estimated from survey responses that an average of 23% of 2017 sales were attributed to tourism in San Diego County. This is similar to our estimated average for 2016.

We also asked, “In your opinion, are wineries and wine tourism welcomed by locals?” Overwhelmingly, the responses were positive – nearly nine out of ten (89%) indicated that they are “appreciated and publicly supported,” and 11% indicated they are “welcome but publicly opposed.” No one in our sample indicated they are “unwelcome and actively opposed.”

Statewide, wine tourism in California is a major economic activity. There are an estimated 23.6 million tourist visits to state wine regions annually, half of which are from out-of-state markets.⁶

⁶ Source: California Wine Institute.

About the Author

Vince Vasquez is an independent economic data analyst based in Carlsbad, California. Professionally, he has worked as a public policy research for more than twelve years. He has authored more than forty policy papers on a range of economic and workforce issues, including the wine industry, craft brewing, and small business districts. Mr. Vasquez has conducted hundreds of media interviews, including ABC News, as well as print, radio and television outlets. He has a Bachelor of Arts in Political Science from the University of California, San Diego, and a Master's in Public Administration. He has used GIS software professionally for more than nine years and has completed training to use Tableau software.



SAN DIEGO COUNTY VINTNERS ASSOCIATION

The San Diego County Vintners Association (SDCVA) is a non-profit member association dedicated to supporting the San Diego viticulture and winemaking community, educating local wine enthusiasts and embracing sustainable agricultural practices in the county.