

Iowa's Craft Beer Industry

ISSUE

This ***Issue Review*** provides background and historical information on Iowa's growing craft beer brewing industry, identifies and analyzes current production efforts, and reports on emerging trends. The ***Issue Review*** also presents a side-by-side comparison of the emerging craft brewing industry of several of Iowa's neighboring states, including an analysis based on similar size and population statistics. Finally, this ***Issue Review*** also provides a brief outlook on regulatory and legislative trends.

AFFECTED AGENCIES

Iowa Alcoholic Beverages Division (IABD)
Iowa Economic Development Authority (IEDA)
Department of Revenue (DOR)
County/City Development and Community Involvement Programs
Iowa Brewers Guild

CODE AUTHORITY

Iowa Code chapter [123](#)

BACKGROUND AND HISTORICAL SIGNIFICANCE

The production, marketing, and sale of "craft" or nontraditionally brewed beer have increased in popularity over the last several years. The number of craft breweries in Iowa has grown significantly from only 27 craft breweries in 2011 to 70 craft breweries in 2016. Though the increased interest in this alcohol production niche appears to be relatively recent for many states, Iowa's brewing industry had its beginnings in the 19th century when the "Garvadius Santo" brewery opened in Fort Madison in 1844. Much has changed since that time. Iowa's response to the pre- and post-Prohibition period plays a unique role in the production, manufacturing, selling, and regulation of craft beer today. Below is a brief historical outline that highlights several key events in the State's history of alcohol production and regulation.

A Brief Historical Outline of Alcohol Production and Regulation in Iowa

1920

January 16: The [Volstead Act](#) is enacted to carry out the intent of the [18th Amendment](#). The Amendment prohibits the ingestion of intoxicating beverages with the exception of those used for religious, research, or developmental reasons.¹ The manufacture, sale, trade, and transport of alcohol are also prohibited.

¹ National Archives, The Volstead Act (August 15, 2016), www.archives.gov/education/lessons/volstead-act.

1933

February 20: The Blaine Act, which proposes a repeal of the 18th Amendment, is passed by Congress.²

July 10: Iowa becomes the 10th state to ratify the Blaine Act.

December 5: The Blaine Act is ratified and becomes the [21st Amendment](#), effectively restoring the control of alcohol production, sale, and regulation back to individual states.

1934

Iowa begins opening State-regulated retail liquor stores. A special permit is needed to purchase alcohol for any type of consumption.

March 6: The 45th Iowa General Assembly passes the “Liquor Control Act,” allowing the State to assume direct control over wholesale and retail sale of all alcoholic beverages except beer. The Iowa Liquor Control Commission is also established with the intent to act as the regulatory body for alcohol production and sale in Iowa.

1963

The creation of the class C liquor license allows for the sale of alcoholic liquor by the glass for consumption on licensed premises.

1972

The first iteration of Iowa Code chapter [123](#) is created. In addition to streamlining statutes, the chapter also establishes the Iowa Beer and Liquor Control Department as the regulating authority of alcohol production and sales in the State of Iowa.

The class C license becomes a combination on-premise liquor, wine, and beer license, rescinding prior regulation that required a separate permit for each type of alcohol. Additionally, gasoline stations are added to the definition of “grocery” to allow the sale of beer for off-premise consumption.

1973

The State of Iowa officially permits alcohol sales on Sundays, with a local option to prohibit such activity. The privilege allows licensees to sell and serve alcoholic beverages on Sundays, but only if a special permit has been obtained.

1979

The Iowa Beer and Liquor Control Department begins collecting a five-cent deposit on each bottle of hard liquor or wine sold in the State.³

1980

August 7: The financing of a new, central liquor distribution center commences with the sale of revenue bonds totaling approximately \$4.0 million.

² Ethan P. Dais, Yale Law School, Liquor Laws and Constitutional Convention: A Legal History of the Twenty-First Amendment (April 9, 2008), digitalcommons.law.yale.edu/cgi/viewcontent.cgi?article=1065&context=student_papers.

³ The Beverage Container Control Act was approved in the 1978 Legislative Session and took effect on July 1, 1979. The overall purpose of the legislation was to control litter along roadways in Iowa. In 1980, the Department of Transportation estimated there was a 79.0% reduction in bottle and can litter in Iowa after the passage of this legislation. Another benefit has been the development of a waste recycling industry, which is supported by consumer participation. It is estimated that there has been a 33.0% per capita reduction of garbage sent to Iowa landfills since 1988.

1981

With the creation of the single class B beer permit, tap rooms are effectively legalized in Iowa. The new permit allows holders to sell wholesale beer for on- and off-premise consumption.

1985

Millstream Brewing Company is established in Amana, Iowa, slowly rekindling the public's interest in and market visibility of craft brewing in the State of Iowa.⁴

1986

The Iowa Beer and Liquor Control Department is renamed the Iowa Alcoholic Beverages Division (IABD), retaining the role of sole wholesaler of all hard liquor within the State.⁵ Beer and wine wholesale operations are moved entirely to the private sector. Remaining State-run retail locations begin to close and the creation of the class E liquor license permits holders to sell hard liquor to business in the private sector.

1989

With the enactment of 1989 Iowa Acts, [House File 127](#) (Beer Brewed for the Consumption on the Premises Act), the IABD announces the establishment of the special class A beer permit in Iowa Code section [123.124](#), specifically created to allow class C, special class C liquor license, and class B beer permit holders to manufacture their own beer for purposes of on-site consumption.⁶ Known as the "brewpub" license, this new permit not only allows restaurants to expand their marketability in the service industry, but also allows a significant opportunity for revenue expansion.

1990

July 1: With the establishment of a five-day class C and special class C liquor license, as well as the class B beer permit, manufacturers and wholesalers are allowed to sell their products at festivals, fairs, and celebrations sponsored or authorized by local authorities.

2009

The establishment of the class C native wine permit allows native wineries and breweries to share employees, expanding business opportunities across the State of Iowa.

2010

July 1: Pursuant to the enactment of 2010 Iowa Acts, [Senate File 2088](#) (State Government Reorganization Act), Division XI, sections 87 through 96, the definition of high alcoholic content beer is updated to include beer which contains more than 5.0%, but not more than 12.0%, of alcohol by weight. As craft beer typically carries higher alcohol content, this legislation effectively allows microbreweries and independent craft brewers to sell their products directly to the consumer rather than distribute it through the IABD.

⁴ Throughout the remainder of the 1990s, eight other craft breweries opened for brief periods of time. Only two of these, Court Avenue Restaurant and Brewing Company (1996) and Rock Bottom Restaurant and Brewery (1997), are still open today.

⁵ Now placed under the auspices of the Department of Commerce, the Division carried out several new duties, including the disbanding of State retail operations and the creation of a new class E liquor license that allows the sale of off-site liquor to approved applications. The IABD acts as the sole wholesaler of alcoholic liquor only, placing wholesale wines and beer in the control of the private sector. The liquor inventory of the State is placed under the bailment system, which requires all liquor sales to go solely through the State.

⁶ <https://abd.iowa.gov/historical-highlights>

The establishment of class AA and special class AA permits allows beer manufacturers in the State to hold both brewer's and distiller's licenses. With this opportunity, private manufacturers are now able to diversify their products and expand their industry without having to focus on only one aspect of the growing alcohol market.

2015

Retailer-operated brewpubs are allowed to sell beer to wholesalers outside the State of Iowa, as long as they comply with the purchasing state's laws.

July 1: Pursuant to 2015 Iowa Acts, [Senate File 456](#) (Regulation of Retail Sale of Beer for Off-Premises Consumption Act), class C permit holders are allowed to fill, refill, and sell "growlers" of craft beer to be consumed off-premises.

2016

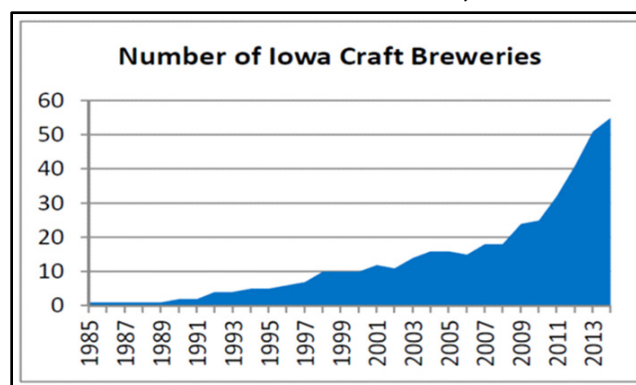
[Senate File 2151](#) (Alcoholic Beverages, Technical Regulation Provisions Act), enacted in the 2015 Legislative Session, made several changes for native Iowa wineries, including allowing tastings on production premises. Although this change is not directly linked to the production of craft beer, it does highlight the expansion of natively produced alcohol within the State. Many native brewers and vintners believe that expanding the amount of natively produced alcohol options leads to a more successful tourism and economic climate for the State, from which all parties can benefit.

2017

[Senate File 516](#) (FY 2018 Standing Appropriations Act), enacted in the 2017 Legislative Session, requires the Alcoholic Beverages Division to conduct a study concerning enforcement and licensing issues related to alcoholic beverage control. A working group on licensing and enforcement reform is currently meeting and continued to do so throughout December 2017. The growing number of craft breweries in the State will likely be affected by any potential changes the working group may explore.

The historical events outlined above directly correspond to growth in Iowa's craft brewing industry. Both **Figure 1** and **2** indicate a large spike in the amount of craft breweries established in Iowa, most pointedly beginning in 2009 and remaining steady through 2013. As **Figure 1** indicates, the last five calendar years show the most dramatic increase in brewery locations in Iowa. The recent nationwide interest in craft brewing has affected Iowa as well.

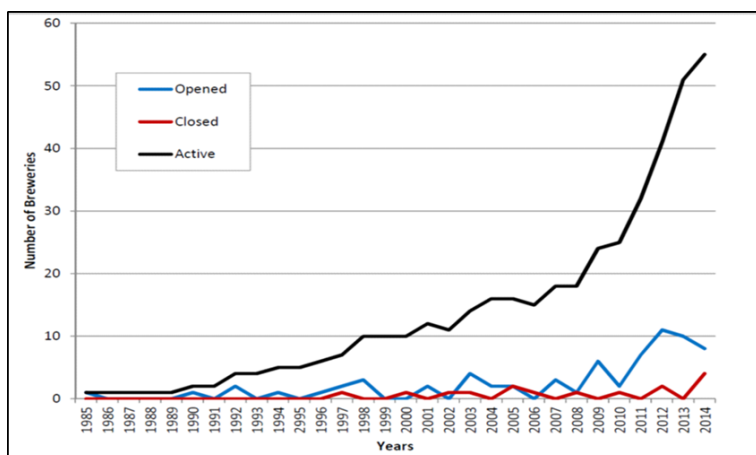
Figure 1:
Number of Iowa Craft Breweries, 1985-2013



Source: Iowa Wine and Beer Promotion Board, 2014

Figure 2 tracks the progression of Iowa's craft brewing industry from its "reawakening" in 1985 to its current state. **Figure 2** depicts three categories of breweries: the number opened, the number closed, and those currently active. It is important to note that the number of brewery closings has remained relatively low over most recent years, while both the newly opened and active breweries experienced significant growth beginning 2003 through 2012.

Figure 2:
Number of Active Breweries in Iowa, Openings and Closings, 1985-2014



Source: Dave Ropte, 515 Brewing Company, Strategic Economics Group

Since the early 2000s, Iowa's craft beer industry has seen massive expansion on a commercial and private level. Along with the number of microbreweries, brewpubs, and nanobreweries, the number of hobby and amateur brewers has grown as well. As can be seen above, the largest spike of active breweries coincides with the latest push to promote the industry throughout the first decade of the 2000s.

CURRENT SITUATION

Iowa's current system of alcohol distribution and regulation is a central factor in understanding how craft beer has carved its own production and regulatory niche. The impact of the enforcement of national Prohibition and its repeal in 1933 plays a significant role in Iowa's unique approach to regulating alcohol consumption, manufacturing, and sale. A direct result of Iowa's approach to alcohol and the influence of Prohibition can be linked to its current regulatory system, which is known as the *Three-Tier System of Alcohol Distribution*.

The Three-Tier System is primarily characterized by placing each of the three significant parties in the production and distribution process — the brewer, the distributor, and the retailer — into separate, distinct tiers. These tiers are separated by law and regulations that prohibit any potential financial conflicts of interest or undue influence within the system.⁷ The Three-Tier System has four primary goals:

- To avoid the overly aggressive marketing and sales practices of the pre-Prohibition Era;
- To generate tax revenue that can be collected efficiently from the beer distribution industry;
- To facilitate State and local control of alcoholic beverages; and
- To encourage moderate consumption.⁸

⁷ Associated Beer Distributors of Illinois, The History of Beer and the Three-Tier System, <http://www.abdi.org/the-three-tier-system/>.

⁸ Associated Beer Distributors of Illinois, The History of Beer and the Three-Tier System, <http://www.abdi.org/the-three-tier-system/>.

In Iowa, the distributor and/or wholesaler role is taken on by the IABD. All brewers and distillers must submit their products to the Division, which acts as the distributor to licensed retailers such as bars, restaurants, convenience stores, and grocery stores. The retailer then supplies product to the consumer. **Figure 3** provides a graphical representation of the Three-Tier Distribution System.

Figure 3:
The Three-Tier Alcohol Distribution System



Source: <https://www.loaddelivered.com/blog/raise-a-glass-successfully-navigating-the-alcohol-supply-chain/>

As previously mentioned, one of the primary objectives of the Three-Tier System is to intentionally separate the parties involved in the production and sales process. To provide protection from undue competition or influence, the system places clear distinctions between each party and the role it plays in the market as a whole. It is important to note that the establishment of the special class A, or brewpub, license by the IABD in 1989 allows for some crossover between two of the system's tiers (brewer and wholesaler). By allowing brewers to manufacture and sell beer for on-premise consumption, Iowa's Three-Tier System of alcohol distribution provides potential business growth within the craft beer market. As craft beer is often initially brewed by smaller, local businesses, providing the opportunity to also serve and sell these products in the same location enables market expansion and ultimately, business profitability. Through legislation such as [HF 127](#), passed in the 1989 Legislative Session, which expanded the on-site brewing capabilities for class C liquor license and class B beer permit holders, Iowa has become a more attractive place to not only begin but also maintain a new business venture. For additional information on the brewpub license, please see **Appendix B**.

Location and Visibility

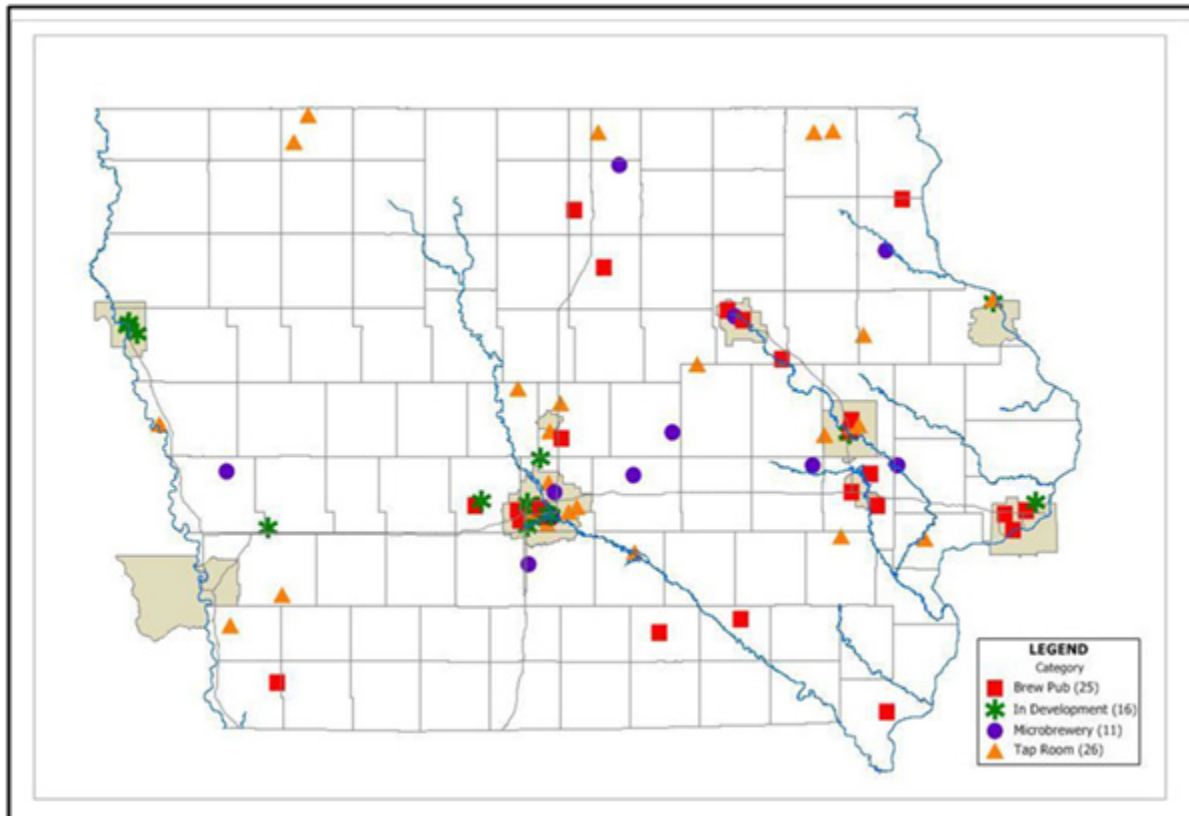
According to calendar year 2016 data collected by the national Brewers Association (BA), Iowa is currently home to 70 breweries, averaging approximately 3.2 breweries per capita.⁹ Iowa produces approximately 61,200 barrels of craft beer, or 0.9 gallons of beer per adult aged 21 years and older, annually.¹⁰ When compared to calendar year 2015, these changes indicate a 20.0% increase in the number of brewing establishments (a total of 70 breweries in 2016 compared to 58 total breweries in 2015), and an 11.3% increase in production (a total of 61,200

⁹ Brewers Association, Iowa Craft Beer Sales Statistics (2016), www.brewersassociation.org/statistics/by-state/?state=IA; per capita means per 100,000 adults 21 years of age and older.

¹⁰ Brewers Association, Iowa Craft Beer Sales Statistics (2016), www.brewersassociation.org/statistics/by-state/?state=IA.

barrels of craft beer in 2016 compared to a total of 55,000 barrels produced in 2015).¹¹ Figure 4 provides the locations of Iowa breweries and brewpubs.

Figure 4:
Location of Iowa Breweries and Brewpubs



Source: Strategic Economics Group, 2014

Figure 4 illustrates that although there is a higher concentration of establishments in larger city and metropolitan areas such as Des Moines and Iowa City, the actual distribution of breweries ranges widely throughout the State. Smaller cities and rural areas are also home to some of Iowa's breweries, such as Decorah's Toppling Goliath Brewery and Pulpit Rock Brewing Company located in the northeastern corner of the State.

Production, Employment, and Labor Force Income

According to the most recent study commissioned by the Iowa Wine and Beer Promotion Board (IWBPB) in 2014, the renewed interest in craft beer production has had a significant impact on Iowa's economic climate. Although data from the study states that Iowa's craft beer industry only covers about 1.2% of the State market, significant economic advances can be seen in the areas of production, employment, and labor force income. In order to measure the economic growth resulting from Iowa's craft beer industry, the Strategic Economics Group, as commissioned by IWBPB, applied what is commonly known as the IMPLAN model. According to the Group, IMPLAN is "...a widely accepted and utilized software model...that uses national industry data and county level economic data to generate a series of multipliers that in turn

¹¹ Strategic Economics Group, The Economic Impact of the Craft Beer Industry in Iowa (May 2015), www.traveliowa.com/UserDocs/2014_Iowa_Craft_Beer_Economic_Impact_Report.pdf.

estimate the total economic impacts of economic activity.”¹² This model allows for the measurement of input-output revenue flows for different sectors of a specified economy. Direct, indirect, and induced effects of these revenue flows are then characterized and mapped by economic activity. This **Issue Review** will only focus on the direct effects resulting from the increased presence and popularity of the craft beer establishments in Iowa.

Approximately 82.0% of the total production of craft beer in Iowa in 2014 was sold in the State, with the remaining amount being sold primarily in neighboring states. As **Figure 5** indicates, total craft beer production was split relatively evenly among the 28 native breweries and 19 brewpubs present in Iowa in 2014.¹³

Figure 5:
Total Craft Beer Production, Iowa 2014

Category	No. of Brewers	Share of Total	To Iowa Retailers and Customers	Outside of Iowa	Total Production (in Barrels)	Share of Total Production
Breweries	28	59.6%	11, 276	2, 188	19, 488	47.8%
Brew Pubs	19	40.4%	8, 473	5, 152	21, 298	52.2%
Total	47	100.0%	19, 749	7, 340	40, 786	100.0%

Source: Iowa Alcoholic Beverages Division, Strategic Economics Group

The types of venues supporting these sales vary (**Figure 6**). Iowa consumers have the option of purchasing craft beer to consume on-site, off-site, or within movie theaters and live entertainment venues. Approximately 36.0% of the total breweries located in Iowa in 2014 also offered on-site tap rooms. One-fifth of the breweries located in Iowa in 2014 provided live entertainment.

Figure 6:
Iowa Craft Brewery Venue Variety

Criteria	Count
Total Craft Brewers by the End of 2014	50
Production Breweries Only	11
Production Breweries with Tap Rooms	18
Brewpubs	22
Brewpubs with Full Restaurant Menus	15
Live Entertainment	10

Source: Strategic Economics Group, 2014

Results from the IWPB-commissioned craft beer study indicate that the growing craft beer industry in Iowa has also had a significant impact on the State’s employment sector. According to the study, in 2014 the rise of the craft brewing industry was directly responsible for approximately 1,300 additional jobs statewide.¹⁴ **Figure 7** displays a breakdown of the growth in employment by economic sector.

¹² Strategic Economics Group, The Economic Impact of the Craft Beer Industry in Iowa (May 2015), https://www.traveliowa.com/UserDocs/2014_Iowa_Craft_Beer_Economic_Impact_Report.pdf.

¹³ Strategic Economics Group, The Economic Impact of the Craft Beer Industry in Iowa (May 2015), https://www.traveliowa.com/UserDocs/2014_Iowa_Craft_Beer_Economic_Impact_Report.pdf.

¹⁴ Strategic Economics Group, The Economic Impact of the Craft Beer Industry in Iowa (May 2015), https://www.traveliowa.com/UserDocs/2014_Iowa_Craft_Beer_Economic_Impact_Report.pdf.

Figure 7:
Iowa Craft Brewing Employment Impact by Industry

Economic Sector	Employment Impact (Individual Job Positions)
Service Industry	719
Manufacturing Industry	508
Trade Industry	56
Total	1,283

Source: Strategic Economics Group, 2014

The economic sector impact of craft brewing ranges from the food service industry to retail sales and the manufacturing of craft beer itself. Iowa's service industry experienced the largest impact from the rise of the craft beer industry, with approximately 56.0% of the directly resulting jobs being housed in this sector. The manufacturing industry follows with approximately 39.6% of the total.

The IMPLAN model also measures economic output changes through the calculation of changes in labor force income. According to the Strategic Economics Group, labor force income includes "the value of all of the income received from employment, including employee compensation, such as wages, salaries, benefits, as well as the income received by proprietors."¹⁵ Several industries experienced an increase in labor force income resulting from the 2014 production efforts of the craft brewing industry (**Figure 8**).

Figure 8:
Labor Income Impact

Description	Labor Income Impact (in Millions)
Food and Beverage Industry	\$ 22.9
Breweries	6.7
Retail Industry (Food & Beverage)	1.6
Grain Farming	0.0
Total	\$ 31.2

Source: Strategic Economics Group, IMPLAN Modeling, 2014

The food services and drinking places sector of labor force income experienced the most significant amount of impact at \$22.9 million, or 73.4%, of total impact for calendar year 2014. Retail stores experienced an approximate \$1.6 million increase in labor force income, which amounts to approximately 5.1% of total monetary labor force income. Actual breweries, however, only experienced a 21.5% (\$6.7 million) increase in the industry's labor force income.

Iowa's grain farm industry was not impacted by the rise in craft beer popularity. This is likely due to the nature of the State's soil and weather conditions, which are traditionally not suitable for planting and harvesting hops, a main ingredient in craft beer production.¹⁶

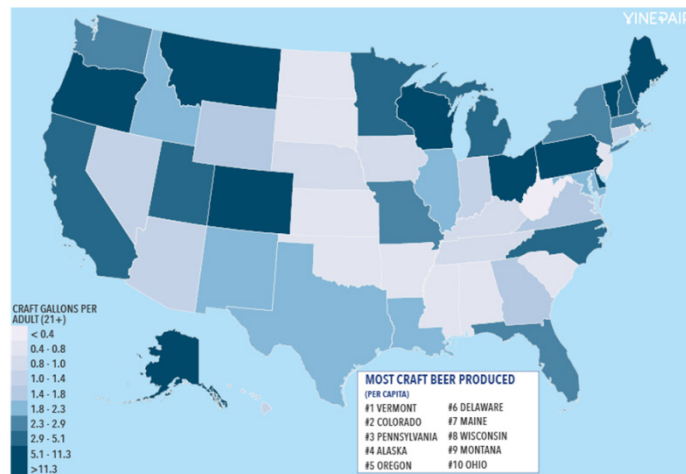
¹⁵ Strategic Economics Group, The Economic Impact of the Craft Beer Industry in Iowa (May 2015), https://www.traveliowa.com/UserDocs/2014_Iowa_Craft_Beer_Economic_Impact_Report.pdf.

¹⁶ While hops are not traditionally grown in Iowa, recent agricultural advances and research have led to a growing interest in planting and harvesting this potential cash crop. Iowa State University Extension and Outreach, Hops Production 101: A Guide to Growing Healthy Hops (May 2016), www.extension.iastate.edu/article/hop-production-101-guide-growing-healthy-hops.

STATE-BY-STATE COMPARISON

The rise of the craft beer industry is evident on a national scale as well. **Figure 9** depicts the United States as characterized by the number of gallons of craft beer produced and sold to adults age 21 and older. Although Iowa does not rank in the top 10 craft beer producing states, it does fall in the middle to high range of producing craft beer. In 2015, Iowa produced and sold approximately 1.0 to 1.4 gallons of craft beer per adult age 21 and older.

Figure 9:
Gallons of Craft Beer Produced and Sold, State-by-State Comparison, 2015



Source: <https://vinepair.com/articles/map-states-ranked-craft-beer-breweries/>

According to the data analysis of the BA in 2016, Iowa ranks 22nd among craft beer-producing states in the United States, moving up 16 positions from being ranked at 38th place in 2015.¹⁷ The BA also notes that craft brewing in Iowa made a total economic impact of \$861.0 million.¹⁸ Iowa ranks 23rd out of 50 states when the economic impact of the growing craft beer industry is measured on a national scale. The economic impact breaks down to approximately \$388.77 per capita, ranking Iowa 13th out of 50 states and the District of Columbia for per-capita economic impact.¹⁹

Comparing the current state of the craft brewing industry in Iowa to the rest of the United States provides a rather broad analysis that does not account for varying regional and population-size specific factors. For a more in-depth analysis, this *Issue Review* uses 2016 electoral vote data as the primary tool in creating a dataset of categorically similar states to examine Iowa's status in the craft beer industry. By utilizing datasets of states similar in either size/population or regional proximity, a more clear and indicative analytical comparison of where Iowa ranks in the national craft beer industry can be made.²⁰ The first subset of this data includes Arkansas, Connecticut, Mississippi, West Virginia, Nevada, New Mexico, Oklahoma, Oregon, and Utah, as they are similar in size to Iowa (based on electoral votes). The second subset of the dataset includes Illinois, Kansas, Minnesota, Missouri, Nebraska, and Wisconsin, as they are the nearest in regional proximity to Iowa.

Figure 10 displays the first dataset of the analysis, categorized by the number of breweries, production by barrel per year, and nationwide rank of each of the aforementioned similarly sized states, based on population.

¹⁷ Brewers Association, Iowa Craft Beer Sales Statistics (2016), www.brewersassociation.org/statistics/by-state/?state=IA.

¹⁸ Id.

¹⁹ Id.

²⁰ Id.

**Figure 10:
State-by-State Comparison, Similarly Sized States*, 2016**

	<u>Number of Breweries</u>	<u>Production by Barrel (/year)</u>	<u>Rank (Nationwide)</u>
Mississippi	9	28,876	51
West Virginia	15	14,682	45
Oklahoma	20	47,847	43
Utah	27	199,220	40
Arkansas	28	35,846	38
Nevada	37	52,828	34
Connecticut	49	129,825	32
New Mexico	57	111,237	26
Iowa	70	61,232	22
Oregon	243	1,149,150	4

*Based on Electoral Votes

*Note: Nationwide Rank is based on number of craft breweries.

Sources: <https://www.brewersassociation.org/statistics/by-state/>,
<https://www.archives.gov/federal-register/electoral-college/allocation.html>

According to the Brewers Association, Iowa ranks 22nd out of 50 states and the District of Columbia for number of craft breweries. Further analyzing the dataset down into a comparison of just similarly sized states, as based on electoral vote numbers, provides additional data. When compared to 10 other states similar in size, Iowa ranks much higher in terms of number of breweries and production of barrels per year. Iowa ranks second in number of breweries when compared to the similarly sized states of the first dataset (**Figure 11**). Iowa ranks fifth in production and second in an overall comparison of the 10 similarly sized states' national craft brewing ranking. In 2015, Iowa ranked sixth in production. The change in rank from 2015 to 2016 displays that the Iowa-produced craft beer market is growing.

**Figure 11:
Iowa Rankings, Similarly Sized States, 2016**

<u>Number of Breweries</u>	<u>Production</u>	<u>Rank</u>
1. Oregon	1. Oregon	1. Oregon
2. Iowa	2. Utah	2. Iowa
3. New Mexico	3. Connecticut	3. New Mexico
4. Connecticut	4. New Mexico	4. Connecticut
5. Nevada	5. Iowa	5. Nevada
6. Arkansas	6. Nevada	6. Arkansas
7. Utah	7. Oklahoma	7. Utah
8. Oklahoma	8. Mississippi	8. Oklahoma
9. West Virginia	9. Arkansas	9. West Virginia
10. Mississippi	10. West Virginia	10. Mississippi

Sources: <https://www.brewersassociation.org/statistics/by-state/>,
<https://www.archives.gov/federal-register/electoral-college/allocation.html>

A third form of analysis compares Iowa to its neighboring states based on geographical proximity rather than size or population. In **Figure 12**, the current craft brewing industries of six states are set in contrast to Iowa's current craft brewing industry. **Figure 12** provides a brief initial comparison of the number of breweries, production levels by barrel per year, and the national rank of each state in the current nationwide craft beer industry.

Figure 12:
2016 Craft Beer Industry Comparison, Neighboring States

	<u>Number of Breweries</u>	<u>Production by Barrel (/year)</u>	<u>Rank (Nationwide)</u>
Illinois	181	337,582	11
Iowa	70	61,232	22
Kansas	31	51,542	37
Minnesota	112	609,415	16
Missouri	78	368,857	20
Nebraska	42	46,805	33
Wisconsin	138	974,538	14

Sources: <https://www.brewersassociation.org/statistics/by-state/>,
<https://www.archives.gov/federal-register/electoral-college/allocation.html>

In comparison to 2015, Iowa's neighboring states have also experienced significant growth in their respective craft beer industries. Nebraska, for example, produced 39,505 barrels of craft beer in 2015 and 46,805 in 2016, an 18.5% increase.²¹

Figure 13 compares these neighboring states to each other, rather than nationally.

Figure 13:
Iowa Rankings, Neighboring States, 2016

<u>Number of Breweries</u>	<u>Production</u>	<u>Rank</u>
1. Illinois	1. Wisconsin	1. Illinois
2. Wisconsin	2. Minnesota	2. Wisconsin
3. Minnesota	3. Missouri	3. Minnesota
4. Missouri	4. Illinois	4. Missouri
5. Iowa	5. Iowa	5. Iowa
6. Nebraska	6. Kansas	6. Nebraska
7. Kansas	7. Nebraska	7. Kansas

Sources: <https://www.brewersassociation.org/statistics/by-state/>,
<https://www.archives.gov/federal-register/electoral-college/allocation.html>

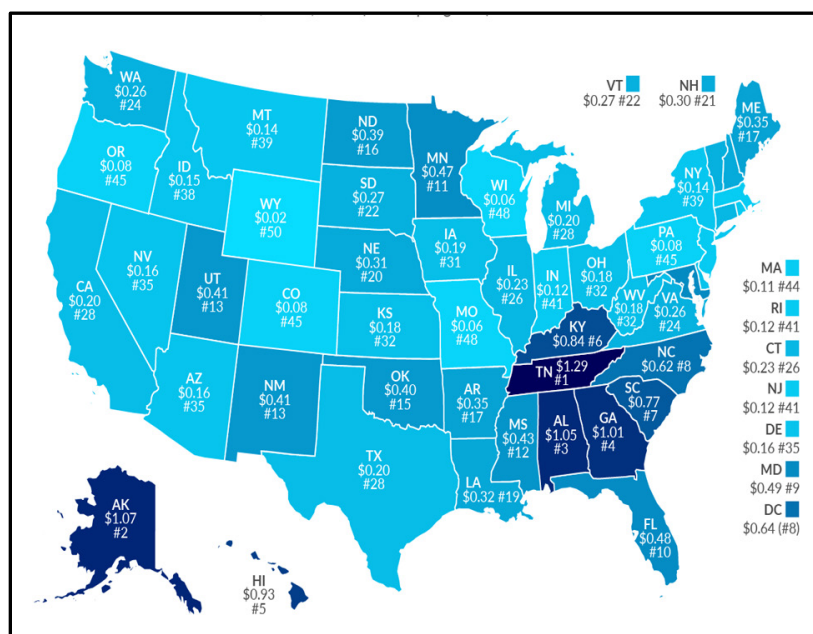
²¹ Strategic Economics Group, The Economic Impact of the Craft Beer Industry in Iowa (May 2015), https://www.traveliowa.com/UserDocs/2014_Iowa_Craft_Beer_Economic_Impact_Report.pdf.

When compared to neighboring states, Iowa ranks fifth out of seven states in all categories—number of breweries, production, and rank. This comparison places Iowa at a lower ranking compared to those states in its closest proximity, but Iowa remains a strong contender in the craft beer industry. Though the craft beer industry in Minnesota is experiencing significant growth, increasing its barrel production by 97.9% from 2013 (308,000) to 2016 (609,415), comparative calculation develops a clearer analysis.²² Iowa, ranked lower than Minnesota in Figure 13, actually experienced a similar rate of growth in total barrel production of 108.3% from 2013 (29,400) to 2016 (61,232).²³ Though Iowa’s craft beer industry may be smaller than nearby states, it is still experiencing positive growth.

Comparing Iowa’s excise tax rate to states of similar size and regional proximity provides another perspective on the growing craft beer industry (Figure 14). Iowa imposes an excise tax significantly lower than some of its competitor states (19 cents/gallon), such as New Mexico (41 cents/gallon), Nebraska (31 cents/gallon), Utah (41 cents/gallon), and Oklahoma (40 cents/gallon). Iowa’s excise tax ranges from 38.0% to 52.0% lower than the above-listed states.

Iowa sits favorably in revenue growth as the growing interest in craft beer continues to raise the production demand within the industry. Lower taxes may encourage the industry to continue to produce and expand. Furthermore, there are lower purchase costs for consumers at a lower taxation rate, similarly creating a stronger demand for the product. It is important to note, however, that Iowa’s excise tax is approximately three times as high as the neighboring competitor states of Wisconsin and Missouri (both charge an excise tax of six cents/gallon). Illinois levies a more comparable tax of 23 cents per gallon. Minnesota charges over twice as much of an excise tax on beer at 47 cents per gallon.

Figure 14:
Excise Tax on Beer, State-by-State Comparison



Source: <https://taxfoundation.org/how-high-are-beer-taxes-your-state-0/>

²² Barry Adams, Wisconsin State Journal, Craft beer continues to guzzle market share from mass-produced beer (March 17, 2015), host.madison.com/wsj/business/craft-beer-continues-to-guzzle-market-share-from-mass-produced/article_d23499a7-c432-54ed-94b8-c7562d7d77e1.html.

²³ Minnesota Craft Brewers Guild, 2013 Year in Review (March 21, 2014), www.mncraftbrew.org/2013-year-in-review.

FUTURE OUTLOOK

The Strategic Economics Group projects strong growth for Iowa's craft beer industry over the next several years. The Group estimates that within the next five years, craft beer production could as much as triple among Iowa breweries. During FY 2014, native Iowa brewpubs and breweries sold 15,442 barrels of beer, whereas they sold only 8,093 barrels in FY 2011, a 90.8% increase over just three years.²⁴ As the market continues to expand in Iowa, so will production.

Recent legislation is allowing additional economic growth in Iowa's craft beer industry as well. In the 2015 Legislative Session, the Iowa General Assembly passed [SF 456](#) (Regulation of Retail Sale of Beer for Off-Premises Consumption Act), which effectively allowed Iowa businesses to begin selling refillable containers of beer to be consumed at off-site locations. These containers, also called "growlers," are eligible to be sold at grocery stores, convenience stores, and carry-out liquor stores. Customers may purchase growlers at a taproom or brewpub and bring the containers back to be refilled and resealed. Legislation like [SF 456](#) increases availability and marketability of craft beer, allowing small starter breweries to expand their business reach and in turn focus on higher rates of production. Allowing for this type of sale increases the opportunity for craft beer to be served outside of breweries and taprooms, reaching a far greater amount of consumers than those in the proximity of such establishments.

When compared and ranked according to national averages, Iowa's craft beer industry has more room for growth. Statistics show the industry has expanded over the past several years due to growing demand. The Associated Press recently reported that as a result of this growing demand, hops production in the United States increased 20.0% in 2016.²⁵ Furthermore, the monetary value of hops as a cash crop increased 19.0% per pound from 2015 to 2016.²⁶ As one of the primary ingredients in the brewing of craft beer, hops production is integral to craft beer demand and production.

LSA STAFF CONTACT: Christin Mechler (515.250.0458) christin.mechler@legis.iowa.gov

²⁴ Strategic Economics Group, The Economic Impact of the Craft Beer Industry in Iowa (May 2015), https://www.traveliowa.com/UserDocs/2014_Iowa_Craft_Beer_Economic_Impact_Report.pdf.

²⁵ Patrick Whittle, The Associated Press, Hop growers look to new parts of US to slake thirst for crop (September 11, 2016), bigstory.ap.org/article/8b73a8524cb246c19764586836ac6c09/hop-growers-look-new-parts-us-slake-thirst-crop.

²⁶ Id.

Appendix A:**Craft Beer Relevant License Classes and Types**

License/ Permit Type	Licensing Designation	Description	Iowa Code Section
Class A Beer Permit	BA	<i>For wholesale beer distributors. Allows for the manufacture and sale of beer at wholesale to licensed retailers.</i>	123.124
Class A Native Beer Permit	BAN	<i>For wholesale native beer distributors. Allows for the manufacture and sale of beer at wholesale to licensed retailers and other beer wholesalers.</i>	123.130
Class AA High Alcohol Content Beer Permit	BAA	<i>For wholesale beer distributors. Allows for the manufacture and sale of high-proof beer at wholesale to licensed retailers.</i>	123.124
Class A Native High Alcohol Content Beer Permit	BAAN	<i>For wholesale native beer distributors — high-proof. Allows for the manufacture and sale of high-proof beer at wholesale to licensed retailers and other high-proof beer wholesalers.</i>	123.124
Special Class A Beer Permit	Brewpub Privilege	<i>For class C liquor licensees or class B beer permittees. Allows the license/permit holder to manufacture beer and sell it for consumption on its licensed retail premises only and does not allow for self-distribution.</i>	123.124
Special Class AA Beer Permit	High-Proof Brewpub Privilege	<i>For class C liquor licensees or class B beer permittees. Allows the license/permit holder to manufacture high-proof beer and sell it for consumption on its licensed retail premises only and does not allow for self-distribution.</i>	123.124
Class B Beer Permit	BB	<i>For taverns, bars, restaurants, etc. Allows commercial establishments to sell beer for on-premises consumption. Also allows carry-out sales of beer in original unopened containers.</i>	123.124
Class C Beer Permit	BC	<i>For grocery stores, convenience stores, pharmacies, etc. Allows commercial establishments to sell beer for off-premises consumption in original unopened containers. No sales by the drink.</i>	123.124
Class C Liquor License	LC	<i>For taverns, bars, restaurants, etc. Allows commercial establishments to sell liquor, wine, and beer for on-premises consumption. Also allows carry-out sales of beer in original unopened containers.</i>	123.30(3)(c)
Special Class C Liquor License	BW	<i>For taverns, bars, restaurants, etc. Allows commercial establishments to sell wine and beer for on-premises consumption. Also allows carry-out sales of beer and wine coolers in original unopened containers.</i>	123.30(3)(c)

*Please note that these license classes and types are specific to craft beer. Additional license information is available from the [Alcoholic Beverages Division](#) website.

Source: Iowa Alcoholic Beverages Division

Appendix B:

Terms and Definitions

Though the term “craft beer” has no patented definition, the establishments associated with its production and services are defined according to size, service provided, and production capability. As these terms are used quite often in discussion regarding the craft beer industry, definitions and distinctions for them are provided below.

Craft Beer: Beer produced in a nontraditional or nonmechanized fashion, typically by smaller, non-mass-production breweries.

Beer Distributor: The individuals who purchase beer from brewers in order to deliver it to retailers. In addition to acting as sales support, distributors often assist in matters of advertising, promotion, and merchandising. In a three-tier alcohol distribution system, such as Iowa’s system, the beer distributor acts as the middle tier.

Microbrewery: A brewery that produces less than 15,000 barrels of beer per year. At least 75% of this produced beer is sold off-site. Microbreweries can sell to the public through the traditional wholesale-to-retail process, indirectly by acting as the wholesaler who sells to the retailer, or directly to the consumer through carry-out and/or on-site taproom or restaurant sales.

Brewpub: A combination of brewery and restaurant that sells 25% or more of their brewed beer on-site. Beer is primarily brewed for internal restaurant and bar sales, and is often directly dispensed from on-site storage tanks. Where allowed by law, brewpubs often sell beer on a to-go basis and/or are also able to distribute it to off-site vendors.

Contract Brewing Company: A business that hires an outside brewery to produce its signature beer. It can also be a brewery that hires an additional, similar brewery to produce greater amounts of such beer due to high demand and lacking production capacity. Contract brewing companies do, however, handle the marketing, sales, and distribution of their own beer, while generally leaving the actual brewing, production, and packaging to an outside contract brewery.

Regional Craft Brewery: An independent, regional brewery whose primary sales consist of “traditional” or “innovative” beer to a fixed geographical location.

Nanobrewery: A brewery that primarily operates on a system that produces no more than seven barrels of craft beer at a time.

Taproom: A room in which alcoholic drinks such as beer are readily available on tap. These are often located in a hotel, bar, or restaurant.