

THE ECONOMIC IMPACT OF WINE AND WINEGRAPES ON THE STATE OF ILLINOIS 2007

An MKF Research LLC Report

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This study was commissioned by the
Illinois Grape Growers and Vintners Association



A division of

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**FULL ECONOMIC IMPACT OF WINE AND WINEGRAPES
ON THE STATE OF ILLINOIS**

\$319.0 Million

ILLINOIS WINE AND GRAPES	ECONOMIC IMPACT
Number of Wineries	91
Grape-Bearing Acres	1,115
Wine Produced (Gallons)	357,000
Full-time Equivalent Jobs	2,064
Wages Paid	\$71.5 million
Retail Value of Illinois Wine	\$27.1 million
Wine-Related Tourism Expenditures	\$39.6 million
Number of Wine-Related Tourists	200,000
Taxes Paid: State and Local / Federal	\$17.8 million / \$22.7 million

Table 1¹
Total Economic Impact of Wine and Winegrapes in Illinois

Revenue:	2007
Winery Sales	\$23,530,000
Retail and Restaurant Sales of IL wine	\$4,343,000
Distributors Sales	\$1,205,000
Tourism	\$39,643,000
Wine Grape Sales	\$1,142,000
Federal Tax Revenues	\$22,734,000
State Tax Revenues	\$17,829,000
Vineyard Development (excluding vines)	\$930,000
Charitable Contributions	\$235,000
Advertising/Marketing	\$25,000
Winery Services	\$450,000
Wine Research/Education/Consulting	\$300,000
Indirect (IMPLAN)	\$74,212,000
Induced (IMPLAN)	\$60,935,000
Total Revenue	\$247,513,000
Wages:	
Winery Employees	\$2,427,000
Vineyard Employees	\$8,189,000
Tourism	\$11,256,000
Vineyard Development and Materials - Labor	\$139,000
Distributors Employees	\$650,000
Retail/Liquor Stores - Wine Specific	\$97,000
Restaurant Sales of IL wine	\$1,529,000
Winery Services	\$178,000
Wine Research/Education/Consulting	\$250,000
Indirect (IMPLAN)	\$26,707,000
Induced (IMPLAN)	\$20,043,000
Total Wages	\$71,466,000
Total	\$318,979,000

Sources: MKF Research, Illinois Tourism & Lodging Association, IMPLAN, University of Illinois, various Illinois wineries surveyed.

¹ Based on 2007 data.

EXECUTIVE SUMMARY

IMPACT OF ILLINOIS WINE ON THE ILLINOIS ECONOMY

Although winemaking in Illinois dates back to the late 1800s, approximately eighty five percent of Illinois' vineyards and wineries have been established in the last fifteen years. In just the last five years, the number of wineries and vineyards has nearly tripled with 86 wineries in the state as of 2007.

In 2007, the wineries of Illinois produced approximately 357,000 gallons of wine per year. MKF Research LLC estimates that Illinois wineries' revenues from wine sales totaled \$23.5 million in 2007, taking into account both direct sales and the wineries' share of revenue for wine sold through the three-tier system. There are approximately 450 grape farmers in the state with approximately 1,115 bearing acres.

The wine and winegrape sectors contributed at least \$40.6 million in state and local taxes to the state in 2007. Wine and winegrapes and related industries account for 2,064 jobs across the state, for a payroll of more than \$71.5 million. Wine and winegrapes and related industries created approximately \$319 million of total economic value to the state of Illinois in 2007, a 26% increase from the estimated economic impact of \$254 million in 2005. In order for continued, sustainable growth to occur, it is imperative additional investments are made to the Illinois' wine and winegrape industry.

EMPLOYMENT

Table 2
Total Illinois Employment: Wine, Grape and Related Industries, 2007

Distributors	8
Research/Education/Consulting	7
Restaurants	95
On and Off Premise Retail	4
Vineyard	431
Vineyard Materials	7
Winery	222
Winery Services	5
Winery Tourism	405
Indirect (IMPLAN)	411
Induced (IMPLAN)	469
Total	2,064

Sources: MKF Research LLC, IMPLAN, Illinois Grape Growers and Vintners' Association (IGGVA), University of Illinois, the National Restaurant Association and the Illinois Bureau of Tourism.

These 2,064 wine-related jobs are approximately 10% less than the 2,293 jobs in 2005, as reported in the previous report. This difference represents growth in the industry as well as continuing progress in collecting data, and more precise data, on suppliers to the industry. This has led us to reduce the number of employees attributed to wine in some sectors while adding employees in others.

Previously, we had accounted for all employees reported as full-time employees, regardless of whether they worked part time or only seasonally. In this report, we have properly adjusted the number of vineyard and winery employees to account for much they actually work. Part-time employees are counted as one-half of a full-time employee and seasonal employees count for one-fourth of one full-time equivalent. Considering the same industry categories included in the last report, wine industry related employment decreased by 10% since 2005.

TOTAL TAXES COLLECTED

Table 3
Estimated Tax Revenues

Tax Type	Total
Federal tax revenues	
Excise	\$ 1,269,000
Payroll	7,833,000
Income	9,132,000
Other (corporate profits, etc.)	4,500,000
Total federal tax revenues	\$ 22,734,000
State tax revenues	
Excise	\$ 260,000
Sales	6,610,000
Payroll	248,000
Property	5,979,000
Other (dividends, licenses, fines, fees, etc.)	4,732,000
Total state tax revenues	\$ 17,829,000
Total tax revenues	\$ 40,563,000

Source: IMPLAN, MKF Research LLC

The wine and winegrape industry generates significant tax dollars, benefiting federal, state and local governments. Tax dollars are raised through sales taxes, excise taxes, income taxes, estate and gift taxes, payroll taxes, property taxes and other business taxes and fees such as licenses. Illinois' wine, grape and allied industries paid \$17.8 million in state and local taxes and \$22.7 million in federal taxes in 2007, including approximately \$1.3 million in federal excise taxes. It is important to note that there has been recent Illinois legislation passed in 2009 that increased excise taxes from \$0.73 to \$1.39 per gallon of wine sold with less than 20% alcohol in Illinois.

TOURISM

Tourism is a major element in Illinois wine's overall economic impact. Our survey of Illinois wineries estimates that more than 200,000 tourists visited Illinois wineries in 2007, up 29% from 155,000 in 2005, while leisure tourism for Illinois as a whole grew 9% for the same time period. Supporting these winery visitors is a diverse labor force of approximately 405 employees with total wages of over \$11 million as compared to 291 employees with total wages of \$7 million in 2005. The continued increase of tourist visits can be attributed to the increase in the number of wineries in Illinois, providing more destinations and opportunities for visitors to experience Illinois wine country.

Given that much of their sales are direct-to-consumer, smaller wineries have focused meaningful effort on enticing consumers to come and visit their facilities. Wine tasting tours are being widely promoted with positive sales results. There has been an expansion of related-product offerings and events, private parties, and concerts held on winery properties and, thus, the winery's function has evolved past simple production. Some existing wineries have expanded their facilities to incorporate these additional revenue streams resulting in increased winery employment and support services, and increased rural economic development. The new wineries being designed and built in Illinois incorporate this new blend of functions with traditional facilities to take full advantage of these profitable ancillary activities.

WINE PRODUCTION AND SALES

In 2007, there were 91 wineries in Illinois, up 34% from 68 wineries in 2005. Lynfred Winery was the largest with a production of approximately 30,000 cases, while there were only a few others producing more than 10,000 cases. Total wine bottled in Illinois in 2007 was approximately 357,000 gallons, or approximately 150,000 cases. This is down from the 500,000 gallons produced in 2005, mainly due to a lower-yielding crop in 2007.

Table 4.1
Trend of Growth in Illinois Wineries

2007	91
2006	83
2005	68
2004	55
2003	42
2002	31

Source: University of Illinois, IGGVA

Approximately 80% of Illinois wineries are small producers, producing less than 5,000 gallons, or approximately 2,100 cases. Due to varying levels of crop failure in 2006 and 2007, a relatively large amount of wine produced in Illinois in 2007 was made from grapes brought in from other states, particularly California, Washington, Oregon, New York and Michigan.

In 2007, Illinois was not among the ten largest wine producers in the United States despite a growing number of new wineries producing wine in Illinois in recent years.

Table 4.2
Top Ten States' Annual Gallons Bottled in 2007

State	Production	Rank	Percentage of Total Production
California	493,752,148	1	86.30%
New York	36,557,267	2	6.39%
Washington	16,681,212	3	2.92%
Oregon	4,552,997	4	0.80%
Texas	2,381,469	5	0.42%
Indiana	1,519,730	6	0.27%
Pennsylvania	1,256,894	7	0.22%
Michigan	1,231,931	8	0.22%
North Carolina	1,206,303	9	0.21%
Florida	1,205,186	10	0.21%
All Others	11,456,673		1.96%
Illinois	356,539	---	0.1%
Total	572,158,349	---	100.0%

Source: TTB

Approximately 17% of the wine volume produced in Illinois is distributed through the three-tier distribution system. This is primarily driven by Illinois's largest wineries, which sell a significant share of their wines through this channel. The vast majority of Illinois wineries by number, however, sell direct to consumers through winery tasting rooms, allowing them to obtain higher margins on their product. These wineries generally have relatively small production.

The retail value of Illinois wine in 2007 is estimated at \$27 million. Winery revenue totals \$23.5 million, including an estimated \$20 million (83%) in winery direct sales (sales by wineries direct to consumers). Winery direct sales include sales to consumers in the winery tasting rooms, wine clubs, winery mailing lists and e-commerce or Internet sales.

GRAPE PRODUCTION

In 2007, there were approximately 450 grape farmers operating in Illinois with a combined acreage of approximately 1,115 grape-bearing acres. While vineyard acreage in Illinois has grown consistently over the past several years, yields have varied. This is largely due to occasionally unfavorable weather conditions such as late spring frost and mid season hail storms, harmful herbicide drift from neighboring fields and, to a lesser extent, vine loss due to insects, black rot and phylloxera. 2006 and 2007 harvests were particularly affected by these problems, resulting in an approximate 25% decrease in tons of grapes sold in 2007.

**Table 5
United States Grape Production, 2007**

Rank	State	Bearing Acreage (All types of grapes)	Utilized Production (Tons)
1	California	789,000	6,230,000
2	Washington	56,500	376,000
3	New York	37,000	180,000
4	Michigan	14,100	100,100
5	Oregon	13,800	38,600
6	Pennsylvania	13,600	84,000
7	Texas	2,900	4,100
8	Virginia	2,400	5,400
9	Ohio	1,900	7,600
10	North Carolina	1,700	3,650
11	Missouri	1,400	2,500
12	Georgia	1,200	2,900
13	Illinois	1,115	1,250
	United States	936,500	7,036,250

Source: NASS (includes non-wine grapes)

COMMUNITY SUPPORT

Wineries and growers throughout the state of Illinois have donated approximately \$223,000 to charities in 2007, including gifts of wine, employee time and cash. This is relatively flat compared to the \$232,000 contributed to charities in 2005. The amount of charitable contributions is likely underestimated as many wineries do not track in-kind contributions, which are often substantial.

DISTRIBUTION CHANNELS FOR ILLINOIS STATE WINE

The vast majority of wine from Illinois wineries is sold direct to consumers at the wineries. Nearly all the wine sold through licensed distributors (under the three-tier system) comes from three wineries and is primarily sold within the state through retailers and restaurants. In 2007, approximately \$3.6 million of total winery wine sales of \$23.5 million was sold through licensed distributors.

WINEMAKING EQUIPMENT, SUPPLIES AND SERVICES

The number of in-state suppliers or distributors of winemaking equipment, supplies and services is relatively small. Many different types of small businesses exist in Illinois that supply the wine and winegrape industry as a portion of their overall business. They include trucking services, label producers, warehousing, and wine labs. As the Illinois wine industry continues to grow, so do the number of ancillary businesses that supply the industry.

Table 6
Illinois Winemaking Suppliers for Illinois Wine

Direct Employment	5 employees
Total Wages	\$178,000
Total Revenue	\$450,000

Source: MKF Research LLC

EDUCATION, CONSULTING AND WINE INDUSTRY RESEARCH

Approximately seven people are employed on a full time basis in Illinois in wine related education, consulting and research, with a payroll of \$250,000.

Table 7
Impact of Wine Related Education, Consulting and Research

Direct Employment	7 employees
Total Wages	\$250,000
Total Funding	\$300,000

Source: MKF Research LLC

RECENT ILLINOIS WINE INDUSTRY LEGISLATION NOT FAVORABLE

There have been several recent regulations passed that have and will continue to have a negative impact on the overall wine and grape industry in Illinois. Specifically, the passage of the HB 429 bill in 2008 restricted Illinois consumers from purchasing wine from out-of-state wine retailers. Additionally, as mentioned earlier, Illinois legislators recently passed in July 2009 a law that increased excise taxes from \$0.73 to \$1.39 per gallon of wine sold with less than 20% alcohol.

While this may increase tax revenue for the Illinois state government, it generally hurts the wine industry as a whole as it is now harder for these wineries to generate enough profit to remain a going concern entity.

A CONSERVATIVE MEASURE OF VALUE

Statistics alone do not adequately measure the intangible value the wine industry brings in terms of overall enhanced quality of life, limitation of urban sprawl and greater visibility for the state of Illinois worldwide. Accordingly, the figures provided in this report should be viewed as a conservative baseline measure of the economic impact, as the true impact of the Illinois wine industry, including intangible benefits is much greater. That measure of economic impact is now **\$319 million** within the state of Illinois, for an industry that is a unique partnership of nature, entrepreneurship, artistry and technology.

Illinois wine and winegrape producers face sizable challenges to their continued growth and success. Working to support the Illinois wine industry and to ensure its long-term success will protect the significant benefits the industry provides to the Illinois economy.

METHODOLOGY

DATA COLLECTION

Data for this study was collected from a variety of public sources supplemented by primary research with wineries, suppliers, growers and other economic entities and supported by a variety of studies undertaken by industry and professional organizations. For several data items the numbers provided are only partial, given the limited availability of information, and therefore are considered conservative.

DIRECT, INDIRECT AND INDUCED EFFECTS (IMPLAN)²

All economic activities have “ripple” effects: employment of one person creates economic activity for others, whether the salesman who sells the employee a car or the restaurant where she eats lunch. Economic impact studies endeavor to measure those “ripples” as well as the direct activity, to help assess the impact of the potential gain or loss of an industry.

Economic impact studies estimate the impact of an industry in a defined geographic region by identifying and measuring specific concrete and economic events, such as the number of jobs, the wages, taxes and output generated by each job.

IMPLAN² is the acronym for “**IM**ppact analysis for **PLAN**ing.” IMPLAN is a well established and widely used economic model that uses input-output analyses and tables for over 500 industries to estimate these regional and industry-specific economic impacts of a specific industry.

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

Direct Effects are economic changes in industries *directly* associated with the product’s final demand. Thus, direct effects consider the direct employment and spending of wineries, vineyards, distributors and immediately allied industries.

Indirect effects are economic changes – income created through job creation in industries that supply goods and services to the directly affected industries noted above. For example, the purchases of electricity and gasoline by wineries and of cash registers purchased for a tasting room.

² IMPLAN is the standard economic model for economic impact studies, developed by the University of Minnesota and the US Forestry Service in the 1980s and currently used by over 1500 organizations, including most federal, state and local organizations. For more information on IMPLAN, go to www.implan.com.

Induced effects are the effects of these new workers spending their new incomes, creating a still further flow of income in their communities and a flow of new jobs and services. Examples are spending in grocery and retail stores, medical offices, insurance companies, and other non-wine and grape related industries.

APPENDIX

ABOUT MKF RESEARCH LLC

MKF Research LLC is the leading research source on the US wine industry. We continue to strive to raise the bar on the quality of information and analysis available to the wine industry.

MKF Research LLC conducts original research on the business of wine and wine market trends, publishes a number of industry studies and provides business advisory services and custom business research for individual companies and investors.

MKF RESEARCH LLC PUBLICATIONS

Grape Trends

By combining the annual crush and acreage reports into one easy-to-use quick reference guide, Grape Trends provides, in one source, all the information needed to make informed decisions about California's grape supply for production planning. Provided in electronic form, Grape Trends includes a complete summary of current, past (since 1997) and projected tons, prices, and bearing acres for all of California's major grape growing regions and counties for all varietals recorded, including: Chardonnay, Sauvignon Blanc, Cabernet Sauvignon, Merlot, Syrah, Zinfandel, and Pinot Noir.

Grape Price Analysis Tool

The Grape Price Analysis Tool enables users to take a deep dive into the California Grape Crush Report and analyze estimated bottle prices in relation to tonnage prices. The tool makes the data from the Crush Report easy to access and provides actionable results to help determine tonnage prices based on an estimated finished bottle price.

Economic Impact Reports

MKF Research LLC has completed the first study of the Impact of Wine, Grapes and Grape Products on the American Economy, for Wine America, the Wine Institute, Winegrape Growers of America and the National Grape and Wine Initiative, as well as wine and grape impact studies for Michigan, Missouri, New York, North Carolina, Pennsylvania, Tennessee, Texas, Virginia and Washington.

Recent Economic Impact Studies and Updates published by MKF Research LLC include the following, all available for purchase from MKF Research LLC:

- Economic Impact of Pennsylvania Wine and Grapes 2007
- Economic Impact of Wine and Grapes on the State of Texas 2007
- Economic Impact of Wine and Grapes on the Missouri Economy 2007
- Economic Impact of Wine and Winegrapes in Tennessee 2007
- Impact of Wine, Grapes and Grape Products on the American Economy, 2007
- Economic Impact of California Wine 2006
- Economic Impact of Washington Grapes and Wine 2006
- Economic Impact of Wine and Winegrapes in North Carolina 2005
- Economic Impact of Wine and Winegrapes in Illinois 2005
- Economic Impact of Michigan Grapes, Grape Juice and Wine 2005
- Economic Impact of New York Grapes, Grape Juice and Wine 2005

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Frank, Rimerman + Co. LLP continues to build its wine industry practice, based in St. Helena (formerly the CPA practice of Motto, Kryla and Fisher), committing the full resources of this major professional services firm to the industry.