



MARYLAND CRAFT BEER: A WORLD WITHOUT LIMITS

A REPORT OF FINDINGS

TO THE REFORM ON TAP TASK FORCE

PREPARED BY THE
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About the Reform on Tap Task Force

In response to the passage of House Bill 1283 during the 2017 Legislative Session and the strong public outcry for reforms of Maryland's antiquated beer laws, Comptroller Peter Franchot established the Reform on Tap Task Force in April 2017.

With the goal of modernizing Maryland's beer laws and promoting economic growth across the State, Comptroller Franchot announced the appointment of 40 task force members – representing every region of the state, as well as breweries, distributors, restaurants, bars and retailers, consumers, and local and state elected officials.

The task force, which first convened on May 24, 2017 at Johns Hopkins University, has held eight public meetings, with each meeting focused on laws and regulations governing the manufacturing, distribution, and sale of craft beer in Maryland. A schedule of task force meetings appears in Appendix A.

Additionally, the task force held two public meetings at Evolution Craft Brewing Company in Salisbury and Denizens Brewing Company in Silver Spring to give consumers a platform to share their views and insights on Maryland's alcohol laws with the task force.

Members of the task force also were encouraged to attend the Northeast Hop Selection and Market at Flying Dog Brewery on September 27, 2017. This annual event brings together hop growers and brewers to sample locally-grown hops and build relationships.

In announcing the appointment of the task force, Comptroller Franchot noted that "Current laws and regulations pose an existential threat to the industry's future growth in Maryland; and with it, the jobs, economic activity, tax revenue and tourism opportunities generated by this community of innovators and entrepreneurs. In the absence of comprehensive reform, Maryland's reputation within the national craft brewing industry will continue to suffer and the economies of our neighboring states will benefit at our expense."

Governor Hogan, in announcing his decision to allow House Bill 1283 to become law without his signature, wrote the following in a letter to the General Assembly: "It is clear from the debate surrounding [House Bill 1283] that Maryland's beer laws – dating back to the end of Prohibition – are in need of reform as they threaten to reverse the incredible growth of our state's craft brewing industry... I urge the General Assembly to explore modernizing our state's brewery laws, and lift legislative impediments to Maryland's craft brewers so that their industry can continue to grow and thrive."

Additionally, the Task Force solicited feedback from industry stakeholders and the public, all with the goal of identifying the best solutions that will facilitate the growth and success of Maryland's craft beer industry and other independent businesses.

Acknowledgements

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Dick Carey, Carey Distributing
Justin Dvorkin, Oliver Brewing Company
Ann Hillyer, Shore Craft Beer
Lester Jones, National Beer Wholesalers Association
Pete Johnson, National Brewers Association
Matt Lesky, BP Lesky Distributing Company
Adrian Moritz, Eastern Shore Brewing Company
Greg Parnas, DC Beer
Wini Roche, Maryland Tourism Coalition
Andrew Schaufele, Maryland Bureau of Revenue Estimates

Over the last several months, the Reform on Tap Task Force has held public meetings at six Maryland breweries and visited two beer distribution facilities. Comptroller Franchot wishes to thank those businesses for generously hosting the task force:

Calvert Brewing Company, Upper Marlboro, MD
Bob Hall, LLC, Upper Marlboro, MD
Buck Distributing Company, Upper Marlboro, MD
Evolution Craft Brewing, Salisbury, MD
Denizens Brewing Company, Silver Spring, MD
Jailbreaking Brewing Company, Laurel, MD
Monument City Brewing Company, Baltimore, MD
Peabody Heights Brewery, LLC, Baltimore, MD

Table of Contents

Summary of Findings: Maryland Craft Beer – An Engine of Economic Growth.....	1
<i>Community Reinvestment</i>	1
<i>Craft Beer & Agriculture.....</i>	2
<i>Craft Beer & Tourism.....</i>	2
<i>Craft Beer's Impact on Maryland's Economy</i>	4
Missed Opportunities: Unfulfilled Potential & House Bill 1283	5
The Good News: Opportunities for Progress	10
Conclusion: The Lighted Path Forward – A World Without Limits	14
Appendices	16
<i>Appendix A: Schedule of Meetings.....</i>	17
<i>Appendix B: Comparative Chart: Franchise Laws in Maryland & Neighboring States.....</i>	18
<i>Appendix C: Comparative Chart: Taproom Buyback Laws in Maryland & Neighboring States</i>	19
<i>Appendix D: Comparative Chart: Production Limits in Maryland & Neighboring States.....</i>	20
<i>Appendix E: Comparative Chart: Taproom Sales Laws in Maryland & Neighboring States</i>	21
<i>Appendix F: Comparative Chart: Self-Distribution Laws in Maryland & Neighboring States ...</i>	22
<i>Appendix G: Findings of the May 2017 Reform on Tap Survey.....</i>	23

Summary of Findings: **Maryland Craft Beer – An Engine of Economic Growth**

In this decade of tepid recovery from the ongoing effects of the nation's Great Recession, the State of Maryland has reaped extraordinary benefits from the rapid emergence of the craft beer industry as a dominant source of jobs, economic investment, destination tourism and tax revenue.

At a time when the State of Maryland has made a recommitment to the revitalization of its once-flourishing manufacturing sector, the craft beer industry has, in recent years, experienced exponential growth in the scope of its manufacturing output.

In 2010, there were 22 working craft breweries across Maryland's multiple licensing classes, which combined to produce 91,854 barrels of beer. Today, there are 84 working craft breweries which are projected to produce 247,000 barrels in 2017.

Community Reinvestment

To achieve today's level of expansion, craft brewers across the state have repurposed aging retail and industrial facilities – many of which had sat vacant and underutilized prior to acquisition.

In 2013, Denizens Brewing Company took occupancy of a vacant retail space – one that had housed multiple failed restaurants and bars – and is today a thriving microbrewery and the community hub of a resurgent South Silver Spring.

The year before, Evolution Craft Brewing Company selected a shuttered ice plant in an industrial section of Salisbury as the site for its new commercial brewery and pub. Today, it is one of Delmarva's most vibrant destinations for both tourists and local craft beer enthusiasts, and has been credited by Mayor Jake Day as integral to the renaissance of Downtown Salisbury.

That same year, the Union Craft Brewing Company launched its brewing operations at the former site of a commercial sign manufacturer along the Jones Falls River in Baltimore's burgeoning Woodberry neighborhood. Having outgrown the space after five years of operations, the brewery – in the spring of 2018 – will relocate to a fully-renovated, 138,000-square-foot facility in what was, at one time, a Sears distribution facility. This new, state-of-the-art complex will serve as an integrated center for Union Craft beer production, taproom sales and entertainment, while providing retail and office space for local small businesses and non-profit organizations.

This pattern of reinvestment and renewal is occurring in older communities throughout Maryland and has, in the process, established a synergy between the manufacturing, tourism and retail sectors in a way that is highly unique, if not exclusive, to Maryland's craft beer industry.

Craft Beer & Agriculture

The growth of Maryland's craft beer industry has directly benefited the state's agricultural industry. There currently are more than 25 acres of agricultural space devoted to hops production in Maryland, and the Brewers Association of Maryland – through its Agricultural Resources Committee – is working actively to advocate for growth in the number of Maryland farms that produce specialty hops and malting grains for beer production.

In July, Frederick's Flying Dog Brewery and the University of Maryland's College of Agriculture and Natural Resources announced a partnership to support the expansion of high-quality hop production in Maryland.

The University of Maryland has begun barley and rye trials, supported by the Maryland Grain Producers Utilization Board. There are now four commercial malting facilities in Maryland, expanding local sourced malted barley and rye.

Craft brewers continue to partner with local orchards and apiaries for local ingredients to be used in their beer products. Additionally, the Maryland Agricultural Resource Based Industry Development Corporation (MARBIDCO) will expand its grape vine grant to include hop vines in an effort to support growing interest in the crop.

In September, Flying Dog hosted the annual meeting of the Northeast Hop Alliance, which provides an opportunity for brewers and growers to establish relationships, conduct business, and strategize for the continued growth of this relationship.

As a result of these and other complementary efforts, Maryland's beer producers are facilitating new market demand for Maryland-grown crops, supporting Maryland farmers, promoting the emerging agri-tourism industry, and expanding the cumulative economic impact of the craft beer industry.

Craft Beer & Tourism

In addition to serving as a leading engine of Maryland's manufacturing and agricultural industries, the craft beer industry has emerged as a statewide hub for destination tourism.

There is considerable market data available to validate this strategy. A public survey that was conducted by the Office of the Comptroller in May 2017 offered the following insights into this growing consumer market:

- 51 percent of respondents make regular¹ or frequent² visits to Maryland brewery taprooms;
- 58 percent of respondents confirmed that “price isn’t really an object” when shopping for a preferred Maryland craft beer; and
- A plurality of respondents – 44 percent – stated that they have traveled more than 50 miles to visit a Maryland brewery taproom.

Similarly, consumer data that was shared with the Task Force by Ann McGinnis Hillyer, CEO of State Ventures and Publisher of *Shore Craft Beer*, revealed that:

- Almost half of all travelers visit at least one brewery while traveling;
- The average traveler will visit more than two breweries while traveling;
- 67 percent of money spent on local craft beers stays local; and
- More than 75 percent of those who purchase tickets for the annual Shore Craft Beer Festival, held in Ocean City, come from more than one hour away.

Recognizing the loyalty and purchasing power of this constituency, state and local tourism officials have worked creatively with the craft brewing industry to attract these consumers and their disposable income. These collaborative efforts include, but have not been limited to:

- Designation of the month of February (“FeBREWary”) as Maryland Craft Beer Lovers Month;
- Establishment of cross-promotional opportunities with local restaurants;
- Creation of unique promotional incentives – such as Visit Baltimore’s *Baltimore Beverage Passport* and the *Baseball and Brew Scorecard* that was developed collaboratively by the Maryland Department of Commerce, the Comptroller of Maryland and the Brewers Association of Maryland; and

¹ Defined in the survey as “multiple times per month”

² Defined in the survey as “once a month”

- Lodging discount packages that incentivize overnight stays and patronage of other local businesses.

Craft Beer's Impact on Maryland's Economy

The extraordinary value of the craft beer industry to the Maryland economy was quantified in a report presented on October 25 to the Task Force by Andrew Schaufele, Executive Director of Maryland's nationally-renowned Bureau of Revenue Estimates (BRE).

Included in the key findings of the study – which measured the economic impact of Maryland craft beer in 2016 – were the following:

- Maryland craft brewers produced more than \$637.6 million in total economic output, supported 6,541 Maryland jobs, generated more than \$228 million in annual wages and generated \$108 million in federal, state and local tax revenue;
- Of that \$637.6 million in annual economic impact, \$402.8 million was associated with Maryland retailers, \$91 million was associated with the state's beer distributors, and \$143.7 million was associated with Maryland's craft beer producers;
- Every \$20,000 in revenue that is generated or received by Maryland craft brewers leads to the creation of 1.36 jobs, \$47,410 in wages, and \$132,405 in economic activity. To put those figures in context, that same \$20,000 investment in Maryland's top five industry sectors will lead to the creation of – on average – 0.17 new jobs, \$12,378 in wages and \$27,121 in economic output. According to the analysis, a dollar invested in the Maryland craft beer industry will achieve a far greater rate of return than a dollar invested almost anywhere else; and
- Because the dollars that are invested in a Maryland-based business will likely be recycled in local Maryland communities and not expatriated to other states, the economic benefits of consuming Maryland craft beer are 54 percent greater than those associated with consuming out-of-state brands.

The hard data and the anecdotal evidence provided to this Task Force have confirmed, conclusively, that Maryland's craft beer industry has emerged as one of Maryland's most powerful economic engines in a relatively short period of time, and that its potential for sustained growth is without limits.

Missed Opportunities: Unfulfilled Potential & House Bill 1283

The contributions of the craft beer industry to the State of Maryland have been enormous. The unfortunate reality, however, is that according to the traditional metrics of economic influence, Maryland's efforts to cultivate this industry lag far behind those of its neighboring states and the District of Columbia.

According to the BRE Economic Impact Study:

- Maryland's craft beer per capita economic impact of \$133,670 per 1,000 residents (2016) ranks last within the immediate region.³
- The 1.1 jobs per 1,000 residents that are generated by craft beer in Maryland ranks last within the immediate region.
- The \$38,000 in labor income, per 1,000 residents that is generated here in Maryland ranks last within the immediate region.
- While locally-sourced beer carries a far greater multiplier effect than beer produced in another state, Maryland remains a net importer of the product, consuming 275,000 barrels of craft beer while producing only 247,000 barrels.
- The State of Maryland currently ranks 25th nationwide in per capita beer production, 36th in the number of breweries and 47th in overall economic impact.

It is impossible to unpack the State of Maryland's legacy of missed opportunities with regard to the craft beer industry – or to summarize the body of work of this Task Force - without revisiting the introduction, context, and adoption of House Bill 1283 in the 2017 Maryland General Assembly. It is difficult to overstate the damage this legislation has done to the state's reputation within the industry and to our efforts to attract and retain craft brewers.

To recap, House Bill 1283 – which received unanimous approval in the House of Delegates and received substantial amendments prior to its passage in the Senate - would have imposed severe and arbitrary restrictions on the ability of breweries with the Class 5 license⁴ to operate successfully.

³ "Immediate region" refers to Maryland's bordering states (Pennsylvania, Delaware, and Virginia) and the District of Columbia.

⁴ The Class 5 Brewery license is meant to be predominantly a brewing facility, with limited accommodation of the public on-site.

The pre-amended version of House Bill 1283 included, but was not limited to:

- A virtual prohibition of a well-established practice known as “contract brewing,” which provides fledgling brewers, who tend to have limited capital resources, with a cost-effective point of entry into the industry;
- Restricted operating hours for Class 5 breweries – which, if approved, would have required them to close their doors well before other licensees that sell alcoholic beverages for on-premise consumption; and
- A provision that would allow the Class 5 brewery to increase their annual taproom sales from 2,000 to 3,000 barrels, provided they sold the additional 1,000 barrels to a licensed distributor at a wholesale price, and purchased it back at retail cost before offering it to their customers.

While the amended bill that was passed and allowed to become law without the Governor’s signature was less devastating to the craft beer industry than its antecedent, the episode focused undesirable national attention on, and public ridicule of, Maryland’s arcane and restrictive beer laws. It also fostered an unwelcome public narrative that Maryland’s business climate is inherently hostile to craft brewers and subject to the undue influence of well-funded special interests.

Maryland brewers expressed deep frustration with the content and perceived intent of House Bill 1283:

“Does anyone actually believe House Bill 1283 will increase beer sales/consumption/production in Maryland?”

Tom Flores, Monocacy Brewing; June 7 Task Force Meeting

“We were not asking for anything from the Maryland legislature – they just need to stop getting in our way! Stop tying our hands!”

Dick O’Keefe, Peabody Heights Brewing Company; June 7 Task Force Meeting

“Carly Ogden, owner of Attaboy Beer, said Tuesday that if the new law had been in place last year, she and husband Brian would not have opened their business in Maryland.”

The Frederick Extra, April 12, 2017

Meanwhile, the Commonwealth of Virginia has sought to capitalize on the events that have transpired in Maryland. The *Baltimore Sun* reported on May 25 that “*Virginia officials are seizing on discord in Maryland over how to regulate the growing number of breweries here by trying to entice brewers and entrepreneurs to move south. Virginia Secretary of Commerce and Trade Todd Haymore said he and his staff have contacted more than a half a dozen Maryland breweries, pitching the commonwealth as more pro-business and pro-beer.*”

Virginia's recruitment activities have been corroborated by Kevin Atticks, Executive Director of the Brewers Association of Maryland, who stated, in his October 25 presentation to the Task Force, that "*brewers have reported receiving calls from top Virginia officials – including from Governor [Terry] McAuliffe and Commerce Secretary Haymore – stating why they should (re)locate in Virginia.*"

According to Mr. Atticks, Virginia's pitch to Maryland brewers included citing a number of pro-craft beer provisions in the Commonwealth's beer laws, such as:

- No limits on beer production;
- No limits on off-premise sales;
- No limits on on-premise sales;
- No limits on [the] number of events;
- Public hours through 12 a.m.;
- No cap on self-distribution;
- Better franchise terms;
- Online reporting and payment of taxes;
- Financial incentives, including no-interest loans, months of rent, etc.

The consequences of Maryland's unfavorable craft beer laws were, once again, publicly displayed with the announcement that Flying Dog Brewery was putting on "permanent hold" its plans to construct a \$54 million production facility in Frederick – one that would have included a 150,000 square foot main brewery and an 8,000-square-foot farm brewery, and would have increased the brewery's production capabilities by 500 to 700 percent.

Flying Dog CEO Jim Caruso said, in a statement released to the media on October 20, that "*the project is on hold because of some legislative and regulatory issues,*" and went on to state that "*we need a playing field that's fair to brewers, wholesalers, retailers. I look at it for what it is and for us it is not viable to invest \$60 million in a brewery.*"

Onerous as House Bill 1283 may have been, it should not, by any means, be viewed as the point of origin of Maryland's inability to compete successfully with our neighboring jurisdictions within this sector. Rather, it is simply the most publicly visible embodiment, to date, of a legal and regulatory culture in the State of Maryland that is defined by the arbitrary, highly restrictive limits imposed upon this community of emerging entrepreneurs.

Examples are plentiful:

- The State of Maryland currently limits the majority of its brewers to an on-premise sales limit of 2,000 – 4,000 barrels. Conversely, Virginia, Pennsylvania, Delaware and the District of Columbia impose no limits.

- The State of Maryland permits visitors of Class 5 breweries to take home no more than one case – or 288 ounces – of beer. Conversely, Delaware has a less restrictive five-case limit for its microbrewery customers, and Virginia, Pennsylvania and the District of Columbia impose no limits.
- While the State of Maryland imposes no production limits on its Class 5 production breweries, it limits its Class 7 microbreweries to a 22,500 cap. By contrast, Virginia, Pennsylvania, Delaware and the District of Columbia impose virtually no limits on these types of breweries.
- As stated earlier, the State of Maryland – as a provision of the enacted House Bill 1283 – permits a Class 5 brewer to increase its annual, on-premise sales cap from 2,000 – 3,000 barrels if it sells, then repurchases, its beer from a licensed distributor. Such a provision exists nowhere else in the region or, for that matter, the United States.
- The State of Maryland permits breweries that produce 22,500 barrels of beer or less to self-distribute up to 3,000 barrels. Virginia, Pennsylvania and the District of Columbia impose no limits on self-distribution, and current Delaware law prohibits self-distribution.
- Under the franchise laws that govern the relationship between the brewer and the distributor in the State of Maryland, the brewer must wait a minimum of 180 days before dissolving the relationship. By contrast, Virginia and Pennsylvania impose a 90-day wait under their respective franchise laws, and Delaware mandates a 60-day period. The District of Columbia does not have a franchise law; rather, the relationships between brewers and distributors there are subordinate to traditional contract law.

In addition to weakening the State of Maryland's ability to compete within this industry, this ironic confluence of contradictory values – the imposition by Maryland State Government of highly restrictive and arbitrary limits upon an industry with seemingly limitless creative and economic potential – has inspired considerable public frustration.

The May 2017 survey undertaken by the Maryland Comptroller's Office found that 78 percent of respondents believe there should be no limits to the amount of beer that a taproom may sell on-site.

84 percent of respondents expressed opposition to the restrictive hours of operation that will be imposed upon future production breweries, while 73 percent signaled outright opposition to House Bill 1283's controversial "buy-back provision."

While the Task Force discussed a broad range of strategies that must be considered in order to make Maryland more competitive for the jobs, investment and revenue associated with craft breweries, members of the craft brewing community have consistently stated that, first and foremost, the laws of Maryland must change in order for our state to succeed.

The Good News: Opportunities for Progress

Even amidst mounting public and industry-based opposition to the state's legal framework, it was made clear by members of the Task Force that Maryland's craft beer industry benefits from several bankable assets as it contemplates a path toward greater competitiveness.

Among them are a clear and genuine sense of synergy that exists between the three tiers of the beverage industry – surprising as that might appear to those who followed the events that transpired in Annapolis last year. The majority of the brewers on the Task Force retain the services of licensed distributors to transport their products, and most made a considerable effort to stress the positive relationships they have maintained with their partners.

In spite of their legitimate public policy differences, a pervasive sense of respect exists among the brewers for the professionalism and quality service of the four distribution companies seated on the Task Force – Bob Hall, LLC of Upper Marlboro; Bond Distributing of Baltimore; Buck Distributing of Upper Marlboro, and Katcef Brothers of Annapolis. Additionally, there is a deep admiration within communities across Maryland for the economic, civic and philanthropic contributions provided by their local distributors – a fact underscored by the aforementioned distributors and by special guest panelists – Carey Distributors of Fruitland and the B.P. Lesky Distributing Company of Hagerstown.

Many Task Force members noted that, prior to their participation on the Task Force, they were unaware of the range of services provided by the distributors on behalf of their clients – from printing and distribution of promotional materials, and representation of their clients at public events, to the maintenance and repair of taps at restaurants and taverns. In recognition of the labor and equipment-intensive nature of services provided by distributors, many brewers on the Task Force indicated that they would continue to use distributors even if they were granted the privilege of unlimited self-distribution.

In a similar spirit, there appears to be a recognition of, and appreciation for, the bonds of shared economic interest that exist between brewers and retailers. For the brewer, local package stores, restaurants and taverns provide the obvious path toward greater product exposure, market share and brand loyalty.

For the retailer, the craft beer movement – along with comparable trends toward locally-sourced craft products within the wine and spirits industries – offers a connection to a base of highly-motivated and loyal consumers who enter the establishment with considerable disposable income.

The compatibility between the brewers and retailers was confirmed by survey research.

Based upon the results of the May 2017 Reform on Tap survey:

- A strong majority of respondents – 68 percent – indicated that they “usually” or “always” restock their personal inventory of craft beer at a local retail store;
- Among those consumers, 73 percent said that they “usually” or “always” make additional purchases while in that local retail store;
- 82 percent said that they typically spend less than \$50 per visit to a taproom – suggesting that the taproom may be one stop in an evening out, and perhaps the first stop, but in all likelihood not the last stop.

This last point was a considerable point of discussion within the Task Force – most notably, at its June 7 meeting at the Calvert Brewing Company. While some members suggested that further liberalization of on-premise sale limits for craft breweries would further blur the lines between a taproom and a traditional bar or tavern, others – such as Justin Dvorkin of the Oliver Brewing Company in Baltimore, Adam Benesch of Union Craft Brewing and Adrian Moritz of the St. Michaels-based Eastern Shore Brewing Company – pointed out how craft breweries have been a catalyst for revitalization of older commercial business districts and attract a critical mass of consumers who go on to spend time and money at nearby restaurants.

The latter perspective was echoed by respondents to the May 2017 Reform on Tap survey – 74 percent of whom stated that *“taprooms and bars are different concepts that offer different experiences.”*

In this context, the September 6 meeting of the Reform on Tap Task Force, held at the Jailbreak Brewing Company in Laurel, addressed the potential legalization of grocery store sales in the State of Maryland. Mindful of the staunch opposition of the strong delegation of retailers in attendance, but also aware that 89 percent of respondents to the May 2017 Reform on Tap survey expressed support for the idea, the discussion moderator asked the brewers present if they believed grocery store sales would help, hurt or have no effect on their businesses. None indicated that grocery store sales would help to grow their businesses.

Given that the Reform on Tap Task Force was established to identify opportunities to grow Maryland’s craft beer industry, and given that the response of the craft brewers to the suggestion was tepid at best, this report is not the suitable platform for continuing that discussion. This is, however, a meaningful public policy discussion that has attracted an unusually high level of public interest, and it’s an issue that state policymakers should be prepared to address in the future.

As noted earlier, another vital asset available to the Maryland craft brewing industry is the critical mass of economic officials, both statewide and regional in focus, who are working to harness its full potential as a hub for manufacturing and destination tourism. While their aggressive and innovative efforts on this front have yielded substantial results, there was a shared sense among Task Force members that more can and must be done.

John Porcari, a native of upstate New York, former United States Department of Transportation Deputy Secretary, and two-time Maryland Transportation Secretary, unpacked several of the initiatives that his native state has pursued in recent years.

They include but are not limited to:

- The decision to make craft breweries a specific component of New York State's economic development strategy, particularly in rural areas and small cities upstate, which includes staff resources devoted specifically to the expansion of the industry;
- Offering an ambitious range of state-subsidized grants and loans for both the beer-related agricultural and microbrewery segments of the industry;
- The widely-publicized and highly successful "Taste of New York" program, devoted to expanding public awareness of, and exposure to, New York beers, wines, spirits and food through joint marketing and promotion;
- Strong engagement and personal leadership from the executive branch, which has included the appointment of a Governor's Ombudsman to the craft brewing industry. The Ombudsman is vested with broad gubernatorial access and authority, and interacts with executive-level agencies throughout state government to eliminate bureaucratic obstacles on behalf of craft brewers; and
- Timely legal reforms, which include the adoption of a Farm Brewery License in 2012 and a package of administrative reforms in 2016 that has made it easier for the industry to conduct business in New York.

The strategy in New York has proven highly successful. Secretary Porcari noted that 40 microbreweries were conducting business in New York in 2011; today, there are 175 and counting. According to Secretary Porcari, there are also 174 farm breweries in active operation across New York State.

Wini Roche, Executive Director of the Maryland Tourism Coalition, called for an increase in state tourism funding in order to maintain pace with the growing investments made by other Mid-Atlantic and northeast states.

Meanwhile, Greg Parnas, a Washington, D.C.-based lawyer who writes for the popular blog, *DCBeer.com*, noted that the District of Columbia has adopted a highly-liberalized set of trade laws that work to the benefit of the industry, without any evidence of adverse impact upon the distribution or retail sectors.

Interestingly, Mr. Parnas also noted that the District's existing beer laws also contain provisions that are beneficial to those other tiers. For wholesalers, that includes the absence of the oft-mocked "come to rest" provision as well as the permission to sell beer and wine, for off-premises consumption, with conditions, directly to consumers.

Retailers, meanwhile, have the ability to purchase any product directly from manufacturers if that product is not available through a licensed District wholesaler.

Ultimately, there was a sense of agreement among both presenters and industry advocates on the Task Force that an ideal strategy for Maryland is one that seeks and establishes a blend between a reform of the state's existing beer laws and the adoption of a more expansive effort to market, promote and financially incentivize the growth of this industry.

Conclusion: **The Lighted Path Forward – A World Without Limits**

The craft beer sector is one that is culturally rooted in, and has flourished through, an absence of entrepreneurial limits. It is an industry of risk-takers who have thrived as a result of strategies that many would interpret as counterintuitive, if not contradictory, to the rules of conventional business planning.

It is an industry of entrepreneurs who risk fortunes and life savings to establish a toehold in a marketplace where, according to respected industry insiders, both the number of consumers and the consumption volumes are flat.

In a world where the location of commercial real estate is often believed be predictive of the success of its occupants, these entrepreneurs have transformed aged industrial sites, modest storefronts, and nondescript suburban office space into vibrant community gathering spaces and tourist destinations.

And in a sector that is notorious for ritualized production of standardized branding, packaging and content, craft brewers delight in offering their patrons an exhaustive inventory of seasonal, commemorative, and “one-off” products in addition to their primary labels.

It is, perhaps, ironic that an industry that is defined by its absence of creative limits - and one that appears to have a limitless potential for sustained long-term growth - is obligated to invest, hire, create and compete for market share in the State of Maryland under a set of arbitrary limits.

Some, such as the previously referenced restrictions on their ability to produce, distribute and sell their own products, are regionally exclusive to the State of Maryland. One could go a step further and contend that, in a system of free enterprise, it is highly irregular for the government, as opposed to the marketplace, to determine how much product a business can manufacture and sell to its customers.

Others, such as the franchise laws that make it exceedingly difficult for the client to terminate a relationship with a vendor for performance, places the State of Maryland in the improbable position of governing a business relationship between private parties, which is traditionally the province of contract law.

To be certain, the “buy-back” provision memorialized in House Bill 1283, appears to be without precedent in the alcohol beverage industry – or, for that matter, anywhere else in American capitalism.

Whatever the rationale or motives for these arbitrary limits – and it is not the responsibility of the Task Force or this report to speculate on either – it is clear that they are largely responsible for the following outcomes:

- They have restrained the natural growth of the Maryland craft beer industry and relegated the state to a subordinate competitive position within our immediate region;
- They have fostered a climate of opportunity – or at the very least, the perception of one – for the Commonwealth of Virginia to recruit our current breweries for possible relocation;
- They have derailed plans for Maryland’s largest and most nationally-prominent brewery to expand its operations and, in so doing, create new jobs, investment and revenue;
- They have inflicted damage upon Maryland’s business reputation at a time when the state has been trying to change the perception that this is not a welcoming environment for investment and job creation; and
- They have fostered public disillusionment with our state’s legislative and political process.

With due respect for what this industry has achieved in spite of these unnatural constraints, and for the extraordinary opportunities that exist to support this sector through marketing and economic development, Maryland’s craft beer industry will never fulfill its true growth potential until Maryland’s craft beer laws are fundamentally changed.

An industry with such limitless potential to transform Maryland’s economy and quality of life should be permitted to operate in the same world without limits that other private sector businesses would consider routine.

To this point, the Reform on Tap Task Force has simply confirmed what has long been obvious – that when Maryland brewers have the freedom and market incentive to produce more beer, then Maryland wholesalers will distribute more beer, Maryland retailers will sell more beer to more customers, and Maryland consumers will ultimately benefit.

Appendices

This section includes supplementary information to this report:

- Appendix A: Schedule of Meetings
- Appendix B: Comparative Chart: Franchise Laws in Maryland & Neighboring States
- Appendix C: Comparative Chart: Taproom Buyback Laws in Maryland & Neighboring States
- Appendix D: Comparative Chart: Production Limits in Maryland & Neighboring States
- Appendix E: Comparative Chart: Taproom Sales Laws in Maryland & Neighboring States
- Appendix F: Comparative Chart: Self-Distribution Laws in Maryland & Neighboring States
- Appendix G: Findings of the May 2017 Reform on Tap Consumer Survey

Appendix A: Schedule of Meetings

May 24, 2017 3:00-5:00 PM Johns Hopkins University 10 E. 33rd Street Baltimore, MD 21218	October 4, 2017 (Town Hall Meeting) 5:30-7:00 PM Denizen's Brewing Co. 1115 East West Highway Silver Spring, MD 20910
June 7, 2017 3:00-5:00 PM Calvert Brewing Company 15850 Commerce Court Upper Marlboro, MD 20774	October 25, 2017 2:00-5:00 PM Johns Hopkins University 10 E. 33rd Street Baltimore, MD 21218
June 22, 2017 3:00-5:00 PM Monument City Brewing Co. 1 North Haven Street Baltimore, MD 21224	November 8, 2017 3:00 – 5:00 PM Louis L. Goldstein Treasury Building Assembly Room 80 Calvert Street Annapolis, MD 21401
July 20, 2017 3:00-5:00 PM Jailbreak Brewing Co. 9445 Washington Blvd. N, Suite F Laurel, MD 20723	
August 15, 2017 3:00-5:00 PM Peabody Heights Brewery 401 E 30th Street Baltimore, MD 21218	
August 16, 2017 (Town Hall Meeting) 5:30-7:00 PM Evolution Brewing Co. 201 E Vine Street Salisbury, MD 21804	
September 6, 2017 3:00-5:00 PM Jailbreak Brewing Company 9445 Washington Blvd. North, Suite F Laurel, MD 20723	

Appendix B: Comparative Chart: Franchise Laws in Maryland & Neighboring States

STATE	MARYLAND	VIRGINIA	DC	DELAWARE	PENNSYLVANIA
WRITTEN AGREEMENT	Yes	Yes	N/A	No	Yes
EXCLUSIVE TERRITORIES	Yes	Yes	N/A	Yes	Yes
PROVISIONS FOR TERMINATION*	Good cause or negotiated compensation	Good cause	N/A	Good cause or reasonable compensation	Good cause
TERMINATION NOTICE	180 days	90 days	N/A	60 days	90 days

* By contrast, wine and spirits suppliers do not enter into franchise agreements. Rather, they assign exclusive distribution rights to a distributor. A supplier may change distributors with a 30 day written notice.

Appendix C: Comparative Chart: Taproom Buyback Laws in Maryland & Neighboring States

STATE	MARYLAND	VIRGINIA	DC	DELAWARE	PENNSYLVANIA
LEGISLATION PASSED	Yes	No	No	No	No
<hr/>					
PROVISION	2,000 barrel limit for taproom sales — and an extra 1,000 barrels if the brewer first sells it to the wholesaler and then buys it back from the wholesaler.				
<hr/>					
<p>NOTE: Last month, the Texas Legislature passed House Bill 3287, which would require brewers making more than 225,000 barrels per year (including affiliates) to pay their distributor for all beers they sell in their taprooms. Governor Greg Abbott has not yet signed the legislation into law.</p>					

Appendix D: Comparative Chart: Production Limits in Maryland & Neighboring States

PRODUCTION LIMITS				
MARYLAND	VIRGINIA	DC	DELAWARE	PENNSYLVANIA
<ul style="list-style-type: none">■ No Limits for Class 5 breweries■ 2,000 barrel limit for Class 6 pub breweries■ 22,500 barrel limit for Class 7 microbreweries■ 15,000 barrel limit for Class 8 farm breweries	<ul style="list-style-type: none">■ NO LIMITS on brewery licenses■ 15,000 barrel limit for farm breweries	<ul style="list-style-type: none">■ NO LIMITS	<ul style="list-style-type: none">■ NO LIMITS on breweries■ 6 million barrel-limit for microbreweries■ 4,000-barrel limit for pub breweries	<ul style="list-style-type: none">■ NO LIMITS■ To qualify for a manufacturer license, the brewery must exceed the 250 bbl floor
				 COMPTROLLER OF MARYLAND <i>Serving the People</i>

Appendix E: Comparative Chart: Taproom Sales Laws in Maryland & Neighboring States

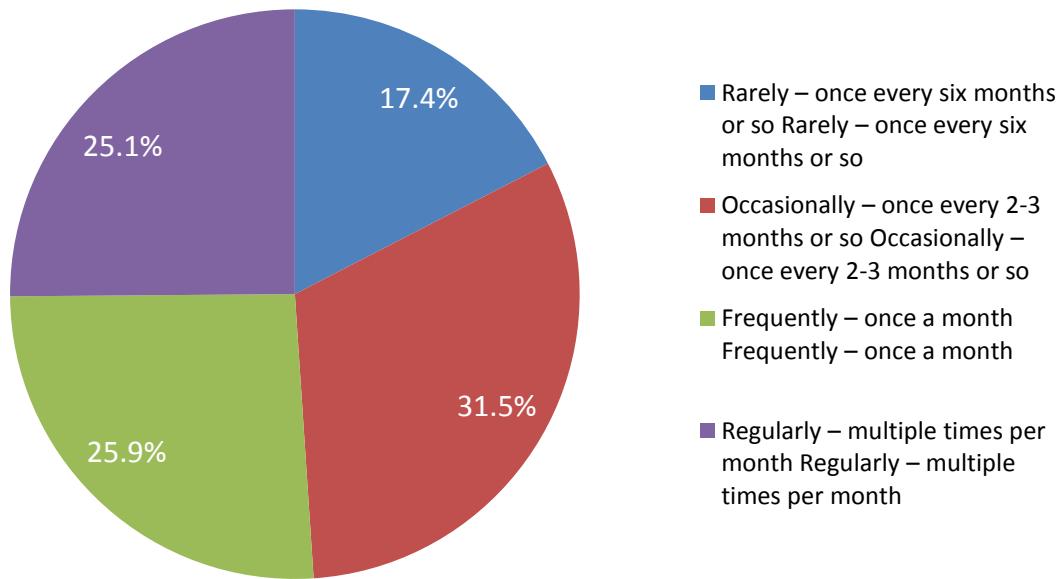
STATE	MARYLAND	VIRGINIA	DC	DELAWARE	PENNSYLVANIA
ON PREMISE SALES	<ul style="list-style-type: none"> ■ 2,000 barrels for Class 5 licenses, effective July 1, 2017. ■ Up to 3,000 with buy-back provision. ■ 4,000 barrels for Class 7 licenses. ■ No limits for Class 6 or Class 8 licenses. 	<ul style="list-style-type: none"> ■ NO LIMITS 	<ul style="list-style-type: none"> ■ NO LIMITS 	<ul style="list-style-type: none"> ■ NO LIMITS 	<ul style="list-style-type: none"> ■ NO LIMITS
TAKE HOME SALES	<ul style="list-style-type: none"> ■ One case (288 ounces) per customer for Class 5 only after tour or during special event. ■ No limit, but only in refillable containers for Class 6. ■ No limit in refillable or sealed containers for Class 7. ■ No limit in refillable or sealed containers for Class 8. 	<ul style="list-style-type: none"> ■ NO LIMITS 	<ul style="list-style-type: none"> ■ NO LIMITS 	<ul style="list-style-type: none"> ■ 5 cases per customer from the microbreweries <p>No LIMITS for the pub brewery</p>	<ul style="list-style-type: none"> ■ NO LIMITS
HOURS OF OPERATION	<ul style="list-style-type: none"> ■ 10 am – 10 pm for Class 5. ■ Local hours apply for Class 6 license holders. ■ Local hours apply for Class 7 license holders. ■ 10 am – 10 pm for Class 8 off-premise consumption. ■ 10 am – 6 pm for Class 8 on-premise consumption. 	<ul style="list-style-type: none"> ■ 6 am – 11:59 pm 	<ul style="list-style-type: none"> ■ 1 pm – 9 pm for Class B breweries ■ 10 am – 4 pm for brewpub permits 	<ul style="list-style-type: none"> ■ 10 am – midnight 	<ul style="list-style-type: none"> ■ 7 am – 2 am ■ 11 am – 2 am on Sundays (with the Sunday sales permit)

Appendix F: Comparative Chart: Self-Distribution Laws in Maryland & Neighboring States

		SELF-DISTRIBUTION				
STATE		MARYLAND	VIRGINIA	DC	DELAWARE	PENNSYLVANIA
ABILITY TO SELF-DISTRIBUTE		Yes	Yes	Yes	No	Yes
LICENSE TO SELF-DISTRIBUTE	Yes	No	Yes	No	No	
LIMITS	Up to 3,000 barrels for breweries that produce 22,500 barrels or less	No cap	No cap	N/A	No cap	

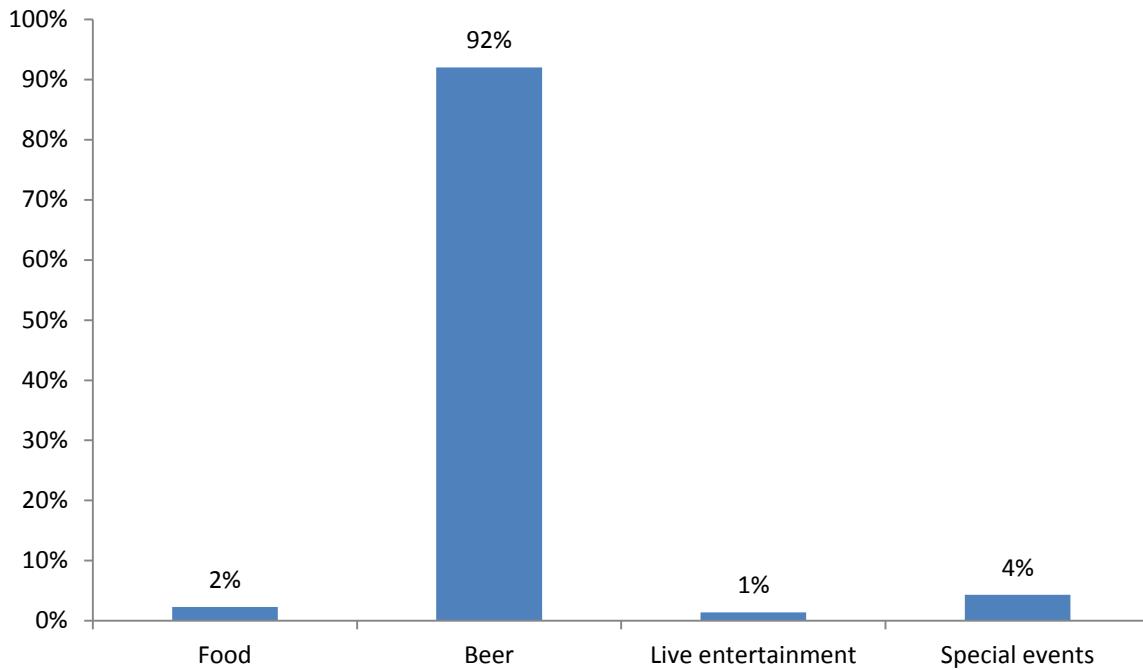
Appendix G: Findings of the May 2017 Reform on Tap Survey

1. Generally speaking, how often do you visit a Maryland brewery taproom?



Options	%	#
Rarely – once every six months or so	17.4%	425
Occasionally – once every 2-3 months or so	31.5%	769
Frequently – once a month	25.9%	633
Regularly – multiple times per month	25.1%	613

2. What is the most appealing thing about the taproom, or taprooms, that you visit? (Please select one answer only)

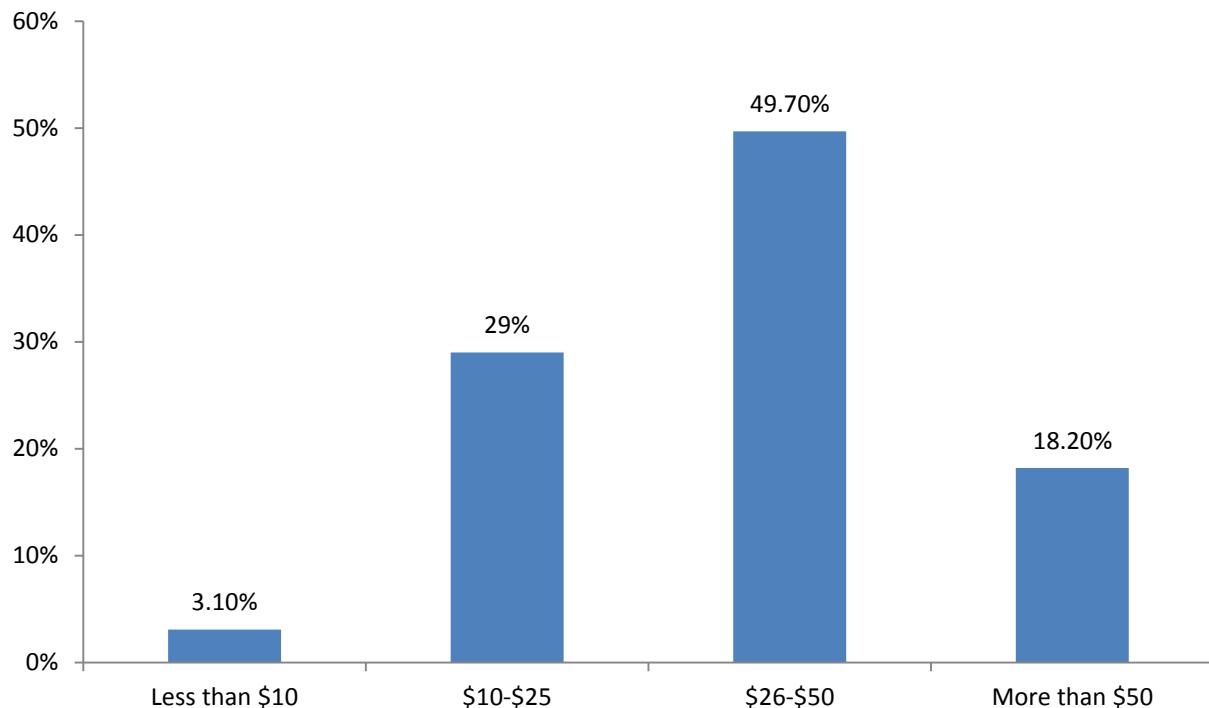


Options	%	#
The beer	92%	2,172
The food	2%	56
Live entertainment	1%	33
Special events	4%	103

Note: There was a minor technical glitch in the survey that permitted respondents to select more than one response to this question. The glitch was detected 30 minutes after the survey went live. In that period, 76 respondents were able to select multiple responses. Those 76 respondents were excluded from the analysis above which includes 2,364 responses. Below is a breakdown of the responses from these 76 respondents.

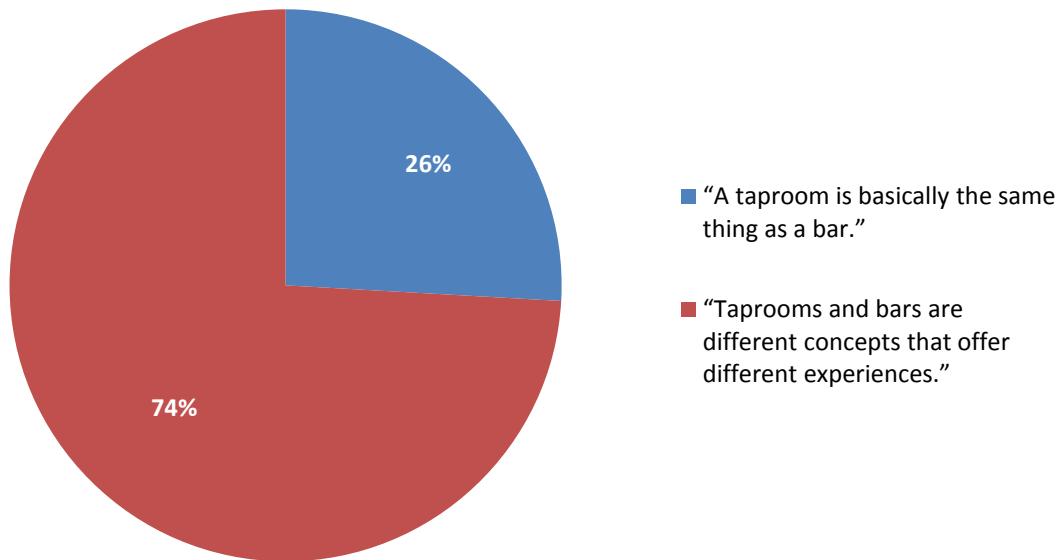
Responses	%	#
Beer, food, live entertainment, & special events	16%	12
Beer, food, special Events	8%	6
Beer & special events	30%	23
Beer and food	21%	16
Beer, Live Entertainment	13%	10
Beer, special events, & live entertainment	7%	5
Beer, food, and live entertainment	5%	4

3. Generally speaking, how much money will you spend during a visit to a Maryland brewery and taproom?



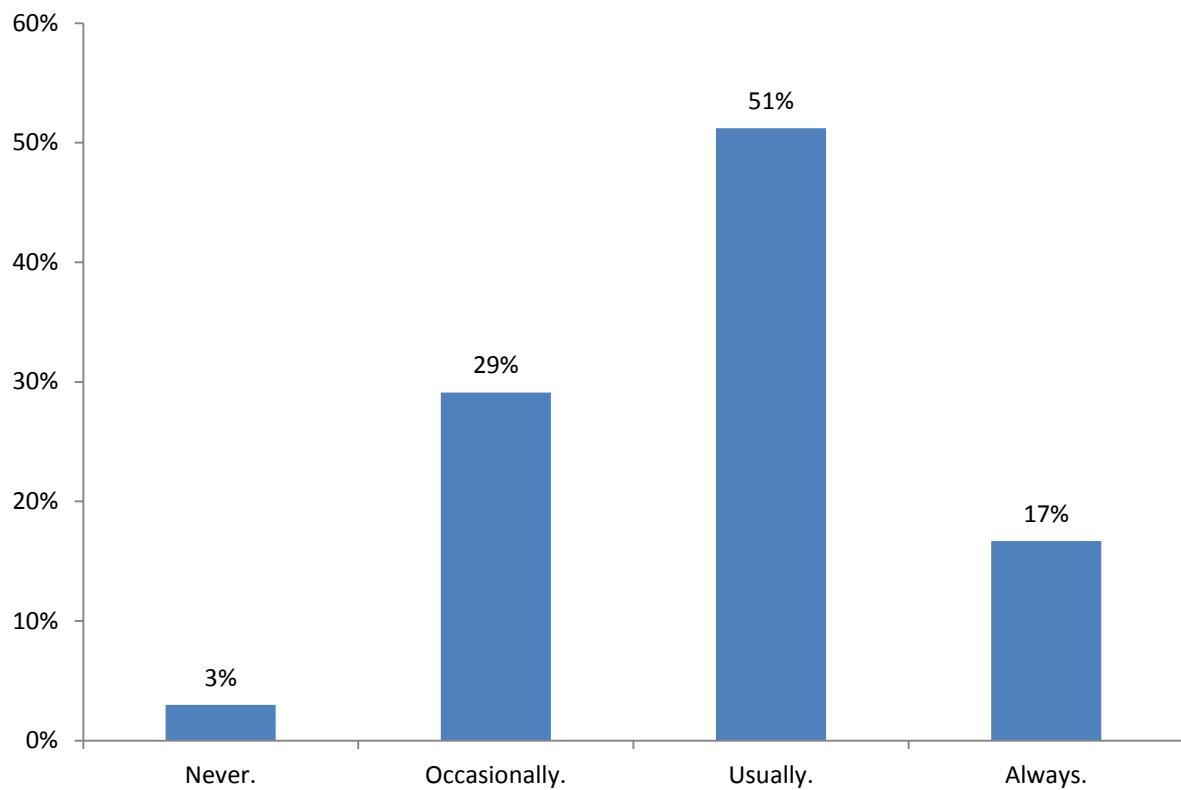
Options	%	#
Less than \$10	3.1%	75
\$10 - \$25	29.0%	707
\$26 – \$50	49.7%	1213
More than \$50	18.2%	445

4. Some have suggested that by allowing brewery taprooms to serve food, serve more beer on site and stay open late, Maryland policymakers are taking business away from traditional bars. Which of the following statements best describes your own personal experience on this issue?



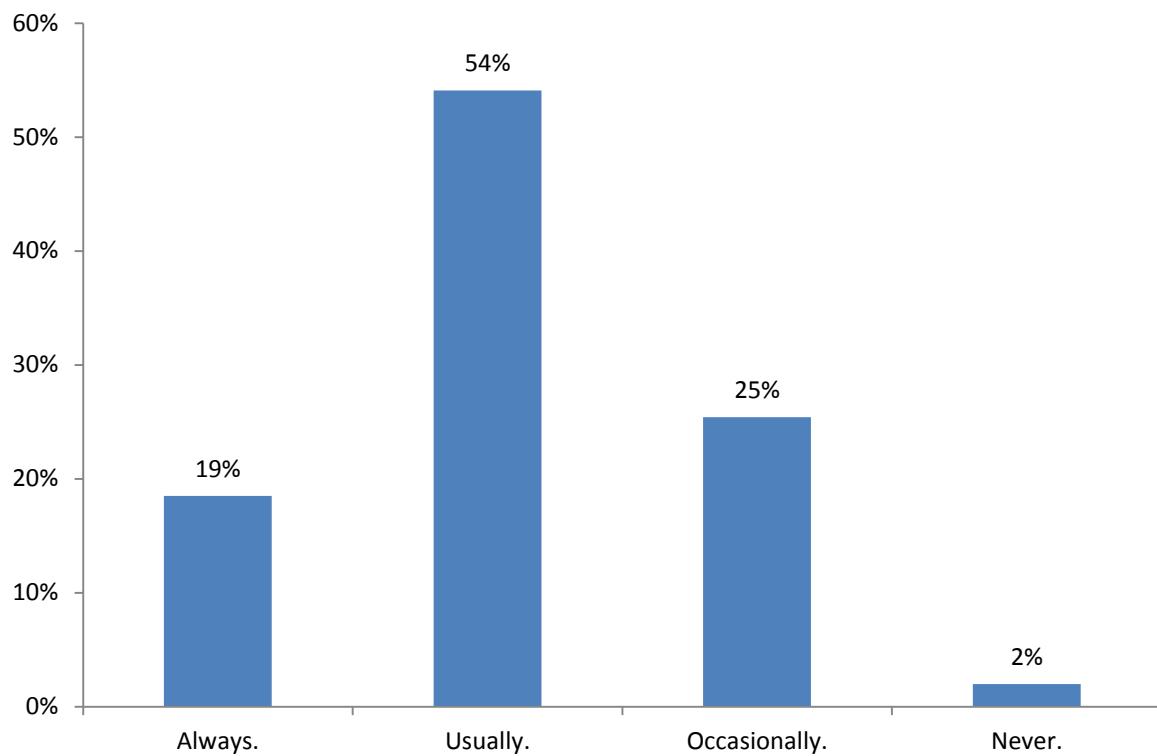
Options	%	#
"A taproom is basically the same thing as a bar."	26%	632
"Taprooms and bars are different concepts that offer different experiences."	74%	1808

5. Suppose you find a beer that you fall in love with during a visit to a Maryland brewery and taproom. How often will you visit a local retail store to restock your fridge with that particular label?

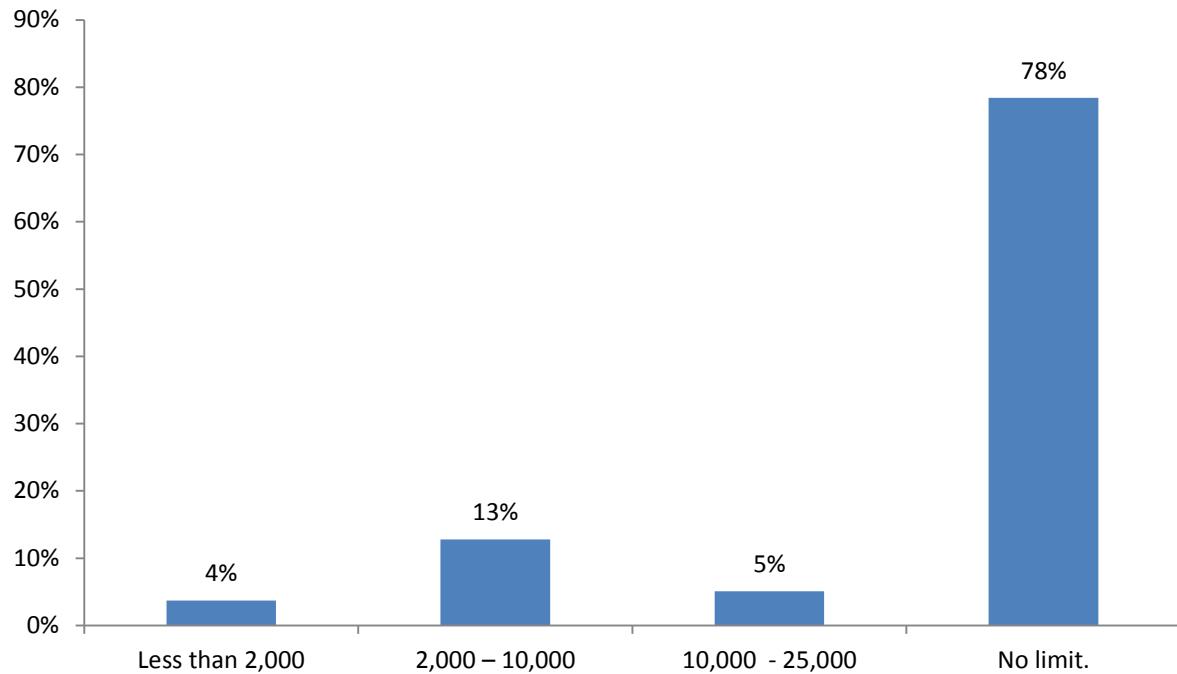


Options	%	#
Never.	3%	74
Occasionally.	29%	710
Usually.	51%	1249
Always.	17%	407

6. *If your response to Question 5 was b, c, or d, please answer this question. Once you're in the store to buy that particular beer, how often will you make other purchases while you're there?

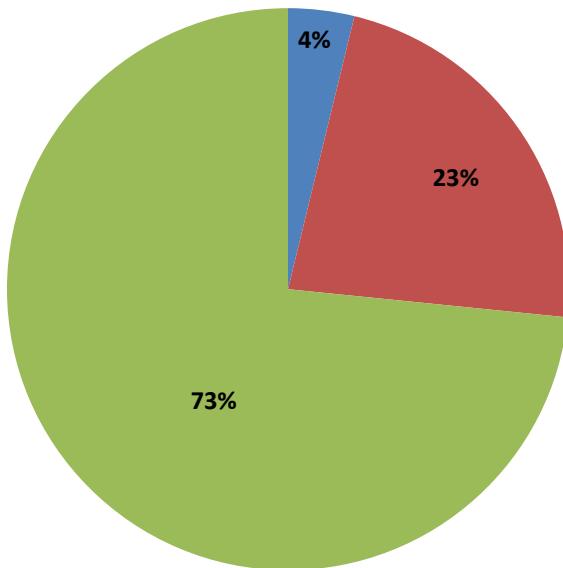


7. Under legislation that was passed this year by the Maryland legislature, a brewery that operates taprooms for beer tastings may serve up to 2,000 barrels of beer each year on site. In your opinion, what is the ideal limit on the number of barrels of beer that a taproom can sell on premises?



Options	%	#
Less than 2,000	4%	90
2,000 – 10,000	13%	312
10,000 - 25,000	5%	125
No limit.	78%	1913

8. That same legislation will allow Maryland brewers to sell another 1,000 barrels on site if they exceed the cap, but only if they buy their own beer back from their wholesaler. Which of the following statements best captures your personal opinion on this law?



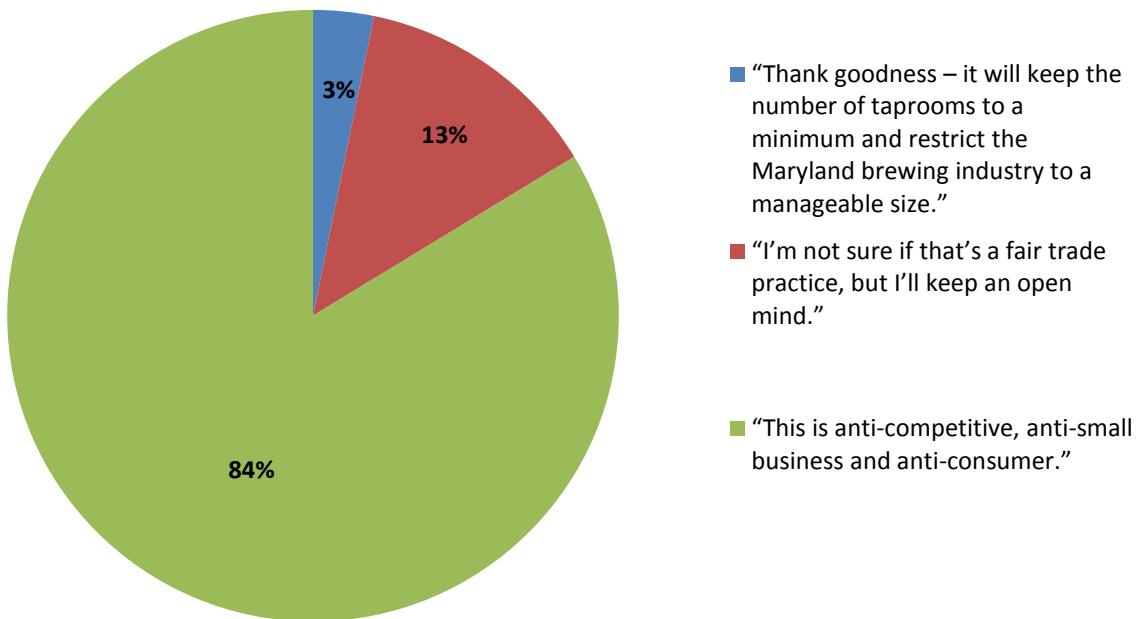
■ "That's a good thing – it provides valuable income for Maryland's beer wholesalers and reinforces their standing in the three-tier system."

■ "I have mixed feelings - I like giving Maryland brewers the flexibility to sell more beer, but I'm not sure about requiring them to buy their own beer back from a wholesaler."

■ "That's one of the craziest ideas I've ever heard."

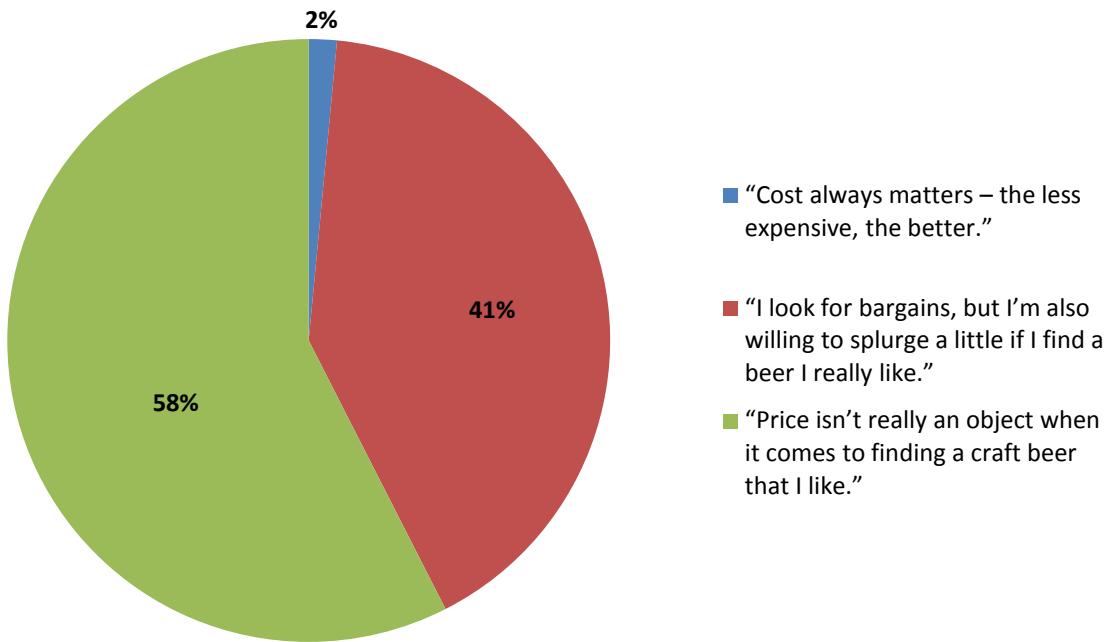
Options	%	#
"That's a good thing – it provides valuable income for Maryland's beer wholesalers and reinforces their standing in the three-tier system."	4%	93
"I have mixed feelings - I like giving Maryland brewers the flexibility to sell more beer, but I'm not sure about requiring them to buy their own beer back from a wholesaler."	23%	557
"That's one of the craziest ideas I've ever heard."	73%	1790

9. The new legislation allows existing breweries to set their taproom hours according to local laws, but limits future taprooms to 10 pm every day. How do you feel about this provision of law?



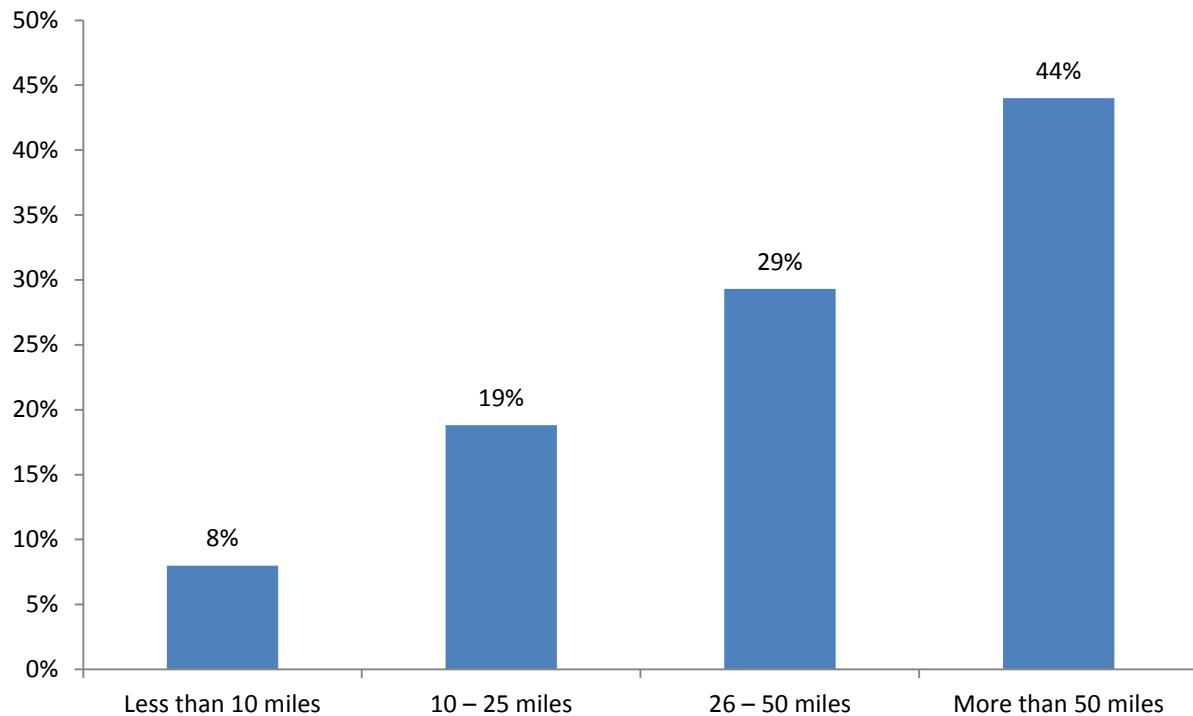
Options	%	#
"Thank goodness – it will keep the number of taprooms to a minimum and restrict the Maryland brewing industry to a manageable size."	3%	77
"I'm not sure if that's a fair trade practice, but I'll keep an open mind."	13%	320
"This is anti-competitive, anti-small business and anti-consumer."	84%	2043

10. Which of the following statements best describes your attitude toward shopping for a Maryland craft beer?



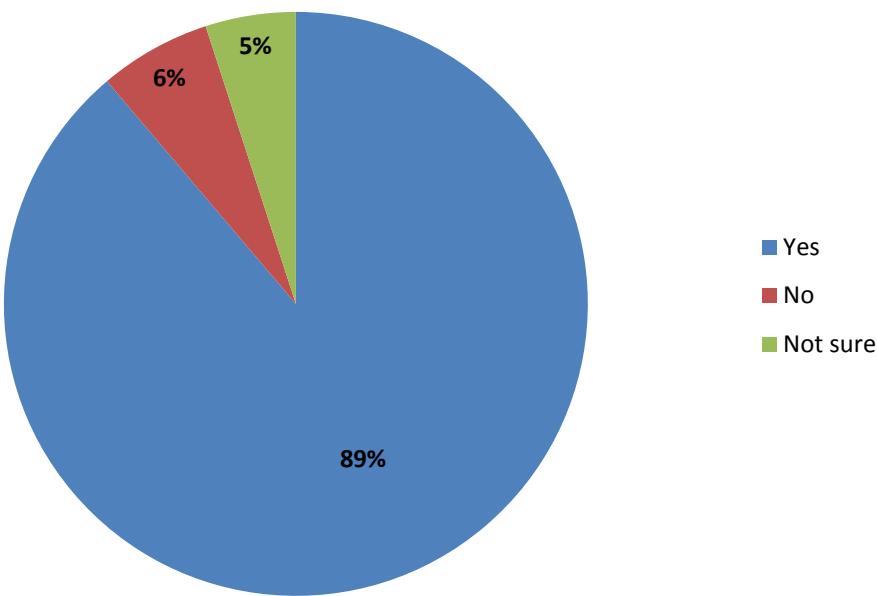
Options	%	#
"Cost always matters – the less expensive, the better."	2%	37
"I look for bargains, but I'm also willing to splurge a little if I find a beer I really like."	41%	1000
"Price isn't really an object when it comes to finding a craft beer that I like."	58%	1403

11. What is the longest distance you've traveled to visit a Maryland brewery taproom?



Options	%	#
Less than 10 miles	8%	194
10 – 25 miles	19%	458
26 – 50 miles	29%	715
More than 50 miles	44%	1073

12. Do you think that Maryland consumers should be allowed to purchase beer and wine in grocery stores?



Options	%	#
Yes	89%	2166
No	6%	151
Not sure	5%	123