



Report to the Governor Tennessee Wine and Grape Board Calendar Year 2023

 Tennessee Department of Agriculture, Authorization
No. 337371, 200 copies, July, 2020. This public document
was promulgated at a cost of \$1.11 per copy.

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Report to the Governor

The Tennessee wine industry makes a significant contribution to state and local government tax revenues, especially when considering the size of the industry. Summarizing and updating the results from a 2023 report (Hughes), a typical Tennessee winery producing 8,000 gallons (3,346 cases) of wine has an annual gross revenue of \$1,050,000 and pays \$203,219 each year in federal, state, and local taxes, licenses, and fees. Of the total amount, \$173,509 (85%) goes to local and state government revenue. Based on the current number of wineries in the state (77), \$2.5 million is a lower bound estimate of local and state government revenue (taxes, licenses, and fees) generated by Tennessee wineries in 2023.

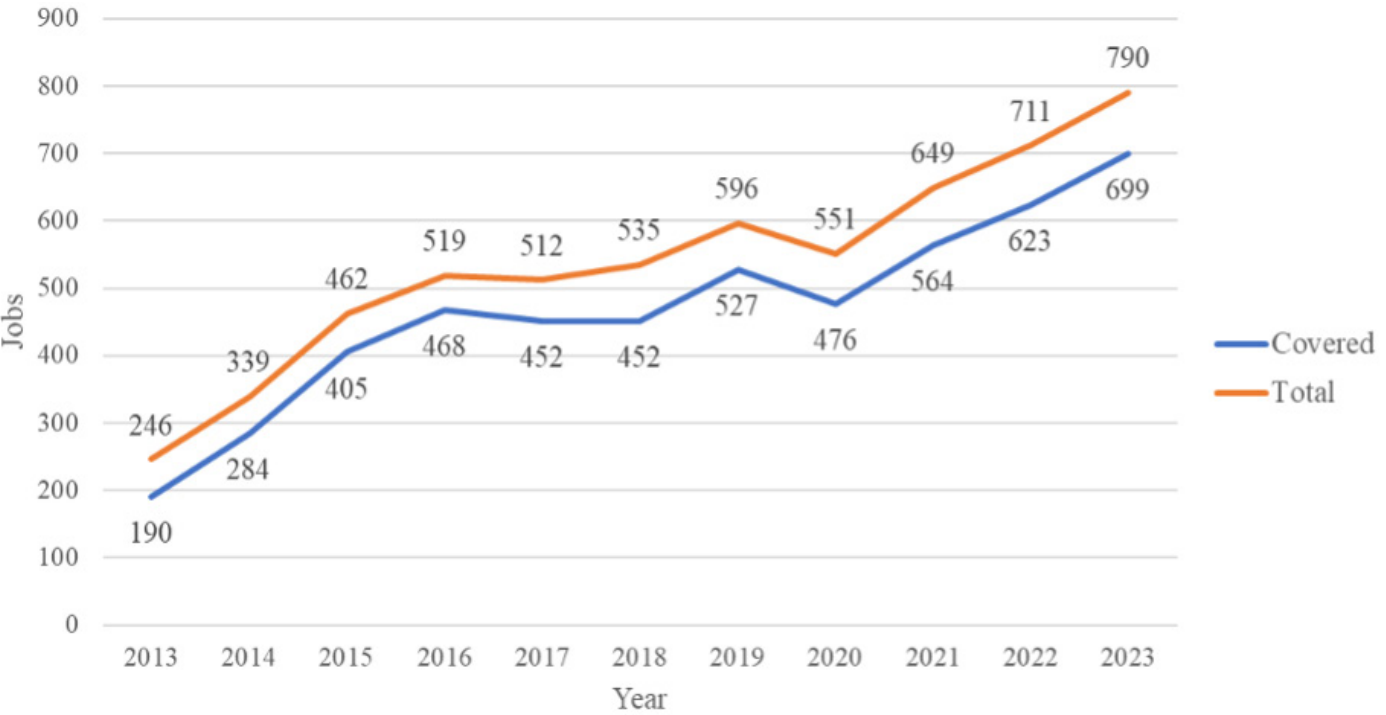
Growth in the Tennessee wine industry has been substantial and pronounced over the recent past increasing to 77 wineries by October 2023 (TFWA, 2024) including 11 farm wineries.¹ There are also 32 satellite facilities where a licensed winery does not manufacture or bottle wine but makes sales for on- or off-premises consumption and can offer complementary or fee-based samples (Tennessee Alcoholic Beverage Commission, 2024). The number of wineries reporting covered employment has more than doubled from 23 in 2013 to 57 by mid-2023 (Figure 1).² Based on the reported levels of covered employment, estimated total employment (which includes our estimate of self-employed workers) has also increased from 246 in 2013 to 790 by mid-2023, a 3.21 fold gain or 2.63 greater than the rate of growth for Tennessee employment in general for the same period. Total wages paid by covered Tennessee wineries increased from just under \$3.8 million in 2013 to over \$19.7 million in real 2012 (inflation adjusted) dollars, a marked increase of 4.72 times.

Challenges and Opportunities

The COVID-19 pandemic impacted the U.S. wine industry and, by inference, the Tennessee wine industry. Many (Mileham, 2020) argue that the pandemic was the most acute threat ever faced by the global wine industry. According to one industry expert (Swindell, 2020), the U.S. industry lost up to \$6 billion in sales due to the pandemic. The losses were mostly experienced by smaller wineries, with those producing 1,000 to 5,000 cases annually experiencing an average revenue loss of 47.5%. Those producing fewer than 1,000 cases annually saw as much as a 66% decline in revenue. Revenue for wine grape growers declined by 25%.

From the start, the pandemic had a devastating effect on the wine industry, decimating wineries' on-premises sales and forcing down projected industry revenue. The Tennessee Department of Agriculture established the Coronavirus Agricultural and Forestry Business (CAFB) Fund to assist businesses impacted by the pandemic. A total of \$7,495,224 was provided to 110 wineries, breweries, and distilleries, creating vital industry support during post-pandemic recovery.

Figure 1 — Source: U.S. Bureau of Labor Statistics



However, a potentially greater industry threat emerged from the pandemic. Based on 2016 estimates provided by Hughes, and accounting for inflation, the current annual cost of operating a 10,000 gallon winery is now more than \$1 million, not including substantial debt services for acquiring necessary equipment and a facility. Responding to this threat, industry leaders partnered with the Tennessee General Assembly to pass Alternating Proprietorship legislation for manufacturers, which was signed into law April 22, 2022. Similar legislation for the wine and grape industry passed with overwhelming support the next year and was signed into law March 31, 2023. This legislation allows a single facility to support the manufacturing needs of multiple other small businesses³ serving as business incubators or mid-tier value chain facilities. Alternation facilities have been highly successful in other areas of the country, accounting for roughly half of California wine labels.

Alternation facilities present significant investment opportunities for Tennessee. According to Hughes⁴, within 20 years, a regional alternation facility will have created or sustained 262 direct full-time employees and 22 indirect within the regional economy as a result of businesses using the incubator and businesses that were seeded and grew to maturity. The total value of labor income is estimated at \$10.2 million for winery workers and owner-operators while \$15.4 million would go to labor in other parts of the state economy. The direct contribution to Tennessee Gross State Product (GSP) is \$22.7 million over the 20 years, while the resulting contribution in other parts of the state economy to GSP is \$26 million. The wineries are projected to generate \$76.6 million in earnings and create an additional \$46.9 million in multipliers benefiting other parts of the state's economy.

Additionally, it should be noted that due to demand for wood, a looming American White Oak shortage will affect future availability and price of barrels, impacting the wine and whiskey industries.

Summary and Recommendations

Programs supporting the mandates of the Tennessee Wine and Grape Board will continue to contribute to strong industry growth. Establishment of American Viticultural Areas (AVAs) in Tennessee will facilitate growth in grape production, creating economic potential for the increased use of Tennessee-grown grapes in Tennessee wines. Investment in alternation facilities, preferably located in areas designated as AVAs, would significantly impact industry growth, particularly in rural areas, and provide for strong tax revenue generation especially at the local and state level. These alternation facilities would also serve as centers of collaboration helping leverage federal funding sources supporting the Tennessee industry.

Policy instruments, such as excise tax rates, incentives, and especially reductions in legal impediments could also bolster Tennessee's wine and grape industry. Educational and other programs focused on improvement in the quality of grapes could build the share of Tennessee wine that uses Tennessee grapes. In addition, marketing programs and educational programs about wine could help align sales growth with neighboring states, as would efforts to lower the barrier to entry for new wineries, wine business incubators, or alternation facilities. It is critical to continue improvement of the quality of Tennessee wines and grapes and increase market opportunities to aid in the growth of our industry and enhance its contribution to Tennessee's economy.

Sincerely,

The Tennessee Wine and Grape Board
Bill Sanderson, White Squirrel Winery, Kenton
Cary Cox, Tsali Notch Vineyard, Madisonville
David Lockwood, Department of Plant Sciences, The University of Tennessee Institute of Agriculture
Kip Summers, Arrington Vineyards, Arrington
Melanie Beauchamp, Assistant Commissioner, Department of Tourist Development
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¹ Farm wineries market wines made from their own grapes but have other licensed sites that actually produce the wine.

² Covered employment are jobs reported by businesses that pay into the unemployment insurance pool. This legal requirement covers most employment except self-employment and employment in certain sectors such as farming.

³ Feasibility of Shared Wine Facilities for the Tennessee Economy, Department of Agricultural and Resource Economics, University of Tennessee

⁴ Economic Outcome of Regional Wine Business Incubators