

**Communication "M"; September 6, 2011 Calistoga City Council Meeting
Item G3: Grape Sourcing Ordinance**

September 6, 2011

Mr. Jack Gingles
Mayor
City of Calistoga
1232 Washington Street
Calistoga, CA 94515

CITY OF CALISTOGA
City Clerk

SEP 7 2011

RECEIVED

Re: Grape Sourcing Proposal for Calistoga Tasting Rooms

Dear Mr. Gingles:

In 2002, after almost 10 years as part of the team at Folie a Deux, my husband and I were fortunate to discover a vineyard with the remnants of an old apple orchard and a 1940s farmhouse in Franz Valley. The setting is stunning, with that timeless sense of peace and place that is found throughout the countryside surrounding Calistoga.

While Franz Valley is just over the county line in Sonoma, people there think of Calistoga as home.

Next spring, we are pleased to be planting a small Cabernet Sauvignon vineyard on a knoll with a sweeping view of Calistoga and the upper Napa Valley.

In order to support our growing wine country venture, we still work a "day job" as bankers in Alaska, so, as bankers, these comments are directed toward the fiscal and economic impact of the proposal being discussed today.

In today's economic climate, now is not the time to add more restrictions on small wineries.

- 95% of the wineries in the Napa Valley are family owned
- 92% of the 412 NVV member wineries produce 10,000 or fewer cases
- Visitor traffic in the Napa Valley is down
- Foreclosure rates are up – currently there are 19 homes listed for sale in Calistoga that have been foreclosed
- Profit margins across the country are collapsing
- Economists now predict the unemployment rate will not return to "normal" until 2018. The Napa Valley's unemployment rate continues to stick stubbornly at 9.2%.

In a new study this spring, conducted by the Wine Business Institute, the second most cited challenge for wineries was Regulatory and Compliance Issues – rated higher than Marketing/Sales, High Cost Issues and Understanding Consumers.

Businesses in the Napa Valley, particularly many small wineries, are challenged enough in today's economy without new regulations restricting the remaining economic opportunities available to them.

With reduced consumer spending, brokers, restaurants and wine shops are reluctant to take on new wineries as customers.

Retailers and brokers are trying to serve the winery customers that they already have, particularly the ones that generate the most income – usually, big well-known wineries with large distribution networks and multiple brands. Those customers can effectively demand and get the best shelf space, sales attention and promotion. Retailers and brokers don't have the time to take on a new customer – particularly, a small new winery who will require as much time and space as a larger, more established winery, to promote successfully.

Consequently, today, sales distribution systems are very limited for many small wineries. One of their few opportunities to introduce their wines to the public is at a tasting room, most often a shared one. Building and staffing their own tasting room on site is either expensive, or their neighbors don't want tasting room traffic on the surrounding roads.

With Napa Cab at an average of \$4250/ton, small wineries must balance the cost of Napa fruit with grapes from other sources to make their margin.

Profit margins are collapsing in today's economy, and for many small wineries, those margins are often small to begin with. If small wineries are required to pour at least 75% Napa wines in their tasting room, it may be an economic challenge for many of them.

Even the larger wineries are looking for ways to stretch that premium Napa Cab. Most of the Syrah from our vineyard has gone to larger Napa Valley wineries looking to blend good, but lesser priced fruit with their Napa Cab.

Currently there are empty store fronts on Main Street in Calistoga.

As I've asked grass roots economic questions of the retail salespeople in Calistoga, they've told me that people are buying less, and of what they're buying, the items overall have a lower average price.

If lease income and sales are down, property owners will have a legitimate reason to have their properties reappraised. From an income appraisal perspective, with retail sales down, lease income down, and empty, unrented buildings in town, there is a good case to be made for lowering the property value, and the attendant property tax.

While the preference may be to have a lower ratio of tasting rooms to other types of retail stores on Main Street, tasting rooms pay rent, pay sales tax and will help support property values. Empty store fronts won't.

Is this the first step in requiring that all businesses which sell wine to the public – wine shops, restaurants and grocery stores, as well as tasting rooms – sell only Napa Valley sourced wines?

That's the logical conclusion, because, whether it's a winery tasting room, a wine shop, a grocery store or a restaurant, they all sell wine to the public.

If the purpose of this proposal is to promote the sale of Napa Valley fruit, how can only one type of business that sells wine in Calistoga be restricted and not other businesses?

Visitors come to Calistoga to enjoy the scenery, to eat great food...and to find that small winery, which produces great wine, that isn't sold on the shelves back home.

This proposal reduces the opportunity for many small wineries to make a connection with visitors. For those wineries, one of the few opportunities in today's economy for a distribution system – giving the public an opportunity to try their wines - is a tasting room. With the price that visitors are willing to pay for a bottle of wine today, it will be difficult for many small wineries to sell enough wine sourced from the more expensive Napa Valley fruit to make the 75% requirement - at margins that will cover their costs.


The economic value of these small wineries isn't limited to just where they buy their fruit – it's in the economic ripple effect of the money they spend to run their businesses.

For instance, in addition to buying Napa Valley Cabernet Sauvignon and Chardonnay, our business spends six figures on goods and services in the Napa Valley – mostly to folks who live in Calistoga.

Instead of concentrating on only one revenue stream from wineries - grape purchases – take a look at the economic ripple effect of winery purchases in all revenue stream opportunities. It may just be that incenting small wineries to open tasting rooms in Calistoga, with a much lower percentage requirement for Napa Valley fruit sourcing, will result in stronger bottom lines for these wineries, generating more grape purchases and contracting for more Calistoga goods and services, than the current proposal would.

Please put this proposal on hold, until a broader analysis of the economic impact is made, the economy recovers and small wineries have more distribution channel opportunities. As the saying goes "The way to make a small fortune in the wine business, is to start with a big one." Right now, many wineries aren't fortunate enough to be able to start with a "big one."

Sincerely,


Betsy Lawer
HP

PS Providing continued business opportunities for small wineries would be in keeping with the rural, small town character that is an essential part of the Calistoga "brand."