Dear Mr. Morrison,

I own and run a new, small winery in the Agricultural Watershed (“AW”) zone here in Napa (Anthem Winery and Vineyards, LLC), and recently received a copy of Proposal X, which I understand Napa County PBES put together as a framework for APAC discussions.  Prior to pursuing our family dream of opening a Napa winery, I was a federal prosecutor in San Francisco for almost a decade, and am familiar with government functions and authority limitations.  I want to thank you for taking the time and substantial effort to put together a framework for discussion.  I understand from the last Planning Commission meeting that a goal of the framework is to give business owners a "reasonable expectation that if they invest in the studies and costs associated with obtaining a Use Permit, they will obtain approval of the levels needed to see a future return on investment."  I agree with this goal.  However, the current contents of Proposal X ensure that it will not be accomplished in several ways.

First, Proposal X or anything similar to it would effectively amount to a ban on new wineries from opening in Napa Valley. It would further place a ceiling upon the growth prospects of existing wineries. Given that new wineries (and many established wineries) heavily depend on a high percentage of direct to consumer sales to be successful, Proposal X’s suggested limit of 50-75 visitors per week for wineries located in the AW, would constitute an unfair cap on direct to consumer sales and therefore winery revenues.  The current cost of purchasing 20+ acres in Napa Valley, obtaining all requisite permits, winery construction, labor and product costs easily exceeds $10,000,000. At a maximum of 75 visitors per week, even with 100%  of visitors spending $80 on wine at a given winery (which a recent study found is much less), a winery might expect revenues of $390,000 (75 visitors/wk x 52 wks/yr x $80 average purchase/visit).  This would offer a new winery owner a yield on their $10M investment of only 3.9% or a return similar to one obtained by purchasing US Treasury bonds. Of course the Treasury bond yield is risk-free whereas the potential yield offered to the winery owner is fraught with all manners of risk. What new enterprising wine owner would launch their winery under these prospects? Very, very few would. What industry can survive in the long term given these conditions? The number of wineries in the Valley would effectively be capped, stagnating the industry and the local economy.  This would also pressure grape growers by capping demand for fruit.  It would further pressure other industries so dependent upon the wine business (vineyard and winery service and supply companies; the hotel and restaurant industry etc).  In its current form, Proposal X literally has the ability to kill new winery development and retard existing winery growth, eventually causing the demise of Napa’s wine industry.

Second, Proposal X would give Napa wineries and grape growers little incentive to preserve the agricultural use of their land given that it would limit wineries’ direct to consumer sales to an unconscionably low level.  Napa County has already driven up the cost of entry into the wine business to an extremely high level.  All of the studies, analyses, plans, and reports Napa County now requires for winery Use Permits and Modifications can alone cost between $500,000 and $1,000,000, which does not even include the costs of land, planting vineyards, and building a winery. Instead of growing grapes, making wine, and selling wine direct to consumers in order to be successful, existing and potential wineries and grape growers will be incentivized to engage in other more profitable commercial activities, to sell their land for commercial development, or to move their winery operations to counties with far less onerous and expensive regulations.  It makes no sense for the County to cap future growth in the wine industry by forcing wineries to sell their wine to distributors located outside of Napa County, outside of California, and even outside of the United States.  Isn't it in the best interest of Napa County to keep property tax and sales tax revenues in Napa County and to give wineries incentive to preserve the agricultural use of their lans?

Third, the rationale for the visitation, event, and production numbers in Proposal X is nonsensical and fails to recognize that the wine industry has adapted in the past 25 years to an increased dependence on direct to consumer sales.  Industries unable to grow and adapt inevitably fail, which Proposal X ignores.  Indeed, the contents of Proposal X do not match up with the visitation, event, and production numbers Napa County has supported and approved in recent years.  In fact, Napa County has approved several wineries in the past few years with visitation, event, and production levels that are 300% to over 800% of the levels proposed in Proposal X.  Notably, in calculating the average and mean numbers on which Proposal X is based, high outliers were excluded, but low outliers were not.   Older wineries have set distribution channels, whereas newer wineries do not, and therefore, heavily depend on direct to consumer sales.  The fact that Proposal X is based on average and mean visitation, event, and production levels of wineries that obtained their Use Permits 10-25 years ago when the wine industry was far less dependent on direct to consumer sales in tasting rooms further debunks the rational behind Proposal X.

Fourth, there is no sound basis for restricting wineries located in the AW to lower visitation, event, and production numbers than wineries in the AP.  Controlling traffic in Napa Valley is the primary reason cited for considering changes to the WDO, and wineries in the AW do little to nothing to increase traffic on the Valley Floor.

In sum, Proposal X currently proposes caps and limits on wineries, grape growers, and the local economy that will effectively ban new wineries and wineries needing increased visitation.  It would also irreparably harm many grape growers who depend on a strong grape market for their livelihoods, and local businesses that depend on visitors to Napa Valley.  Indeed, if Proposal X were to be adopted, not only wineries, but Napa’s local economy would be all capped out as it leaves no room for future growth.

Thank you for your time and consideration of these issues.  Can you please add me to the agenda for the next APAC meeting on Monday, July 13, 2015 at 9:00am so that I may share my concerns regarding the contents of Proposal X?

Best,

Julie Arbuckle

Anthem Winery