Title
Shifting Incentives: One Unintended Consequence of Texas Bar COVID-19 Shut-Down

I want to submit an abstract for:
Conference Presentation

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Keywords
COVID-19, Wineries & Breweries, Texas, Legal Restrictions, Public Policy, Health Policy, Unintended Consequence

Research Question
Did the COVID-19 policy response of forced closure of “bars” in Texas impose an unnecessary cost on breweries and wineries (without corresponding health benefits)?

Methods
Using real-time Texas licensing and sales data, this project leverages probit regression to better understand the causal impact of COVID-19 policies on wineries and breweries.

Results
This study finds evidential support that the forced closure of Texas breweries and wineries imposed an unnecessary cost with little to no health benefit (on the margin).

Abstract
The COVID-19 pandemic caused a tidal wave of changes to modern life, and business was no exception. This project explores one unintended cost of the shut-down of Texas “bars” in 2020: the cost to breweries and wineries as they were forced to shift business models to accommodate regulations. With respect to licensing, Texas defines a bar as “any business where alcohol is served for on-premise consumption for whom alcohol sales make up at least 51% of gross receipts.” Accordingly, in Texas, wineries and breweries are
within the same category as bars when it comes to policy and licenses. In response to the COVID-19 pandemic, Texas policy dealt differential restrictions to bars versus restaurants: bars faced much stricter shut-down rules and more limited capacity.

Governor Abott ordered all restaurants and bars to close at midnight on March 19, 2020 and subsequently required various changes in capacity limits between May and June. However, by June 26 the policies drastically differed between restaurants and bars: bars were closed while restaurants were allowed to operate at 50% capacity (this pattern repeated over the following months until Texas fully reopened in March 2021). This policy was explicitly identified as a hinderance to brewery success during the pandemic. The Texas Craft Brewers Guild conducted a survey of members which ultimately represented 40% of the operating brewers in Texas. One in three expected to close by the end of the year without a change to the “51% establishments” shutdown order.

On Friday, July 24, 2020 there was a big change to these mitigation policies as the Texas Alcohol and Beverage Commission (TABC) determined that the 51 percent calculation of gross receipts should only include the sale of alcohol for on-premise consumption. Therefore, the calculation excluded to-go, retail, and wholesale sales of alcoholic beverages, which made it easier for breweries to meet the 51% revenue rule. Establishments needed to show they had been making less than 51% in alcohol sales since April (only including on-premise alcohol sales) to be rezoned as restaurants. Bars could also apply for Food and Beverage certificates if they ramped up their on-site kitchen space or added a permanent food truck to their grounds: allowing them to add new food sales to gross receipts to change the ratio of alcohol to food. As such, there was a “loophole” for bars and breweries who were able to redefine themselves as restaurants where they could bypass the stricter policy set for “bar” type breweries. This differential policy was argued to be a result of the belief that bars were riskier in terms of Covid-19 exposure and infection, though this is not necessarily factual for many of the wineries and breweries in the state. Detailed anecdotal support is provided for this argument.

I find that many of these specific small businesses responded to incentives by changing their business model to increase food sales and paying to alter their business licenses. In doing so, these establishments were able to remain open in the short-run. Using a probit model for whether the brewery (or winery) remained open in 2022, this success in navigating the pandemic is causally impacted by licensing changes. In other words, those who were unable to adjust or afford the license change were more likely to go out of business.

Interestingly, establishments who changed their license did not necessarily alter their business operations in respect to health safety beyond what they would have without the license change. For example, by partnering with a food truck, breweries could adjust their sales to accommodate the restaurant definition. This did not alter risk in terms of COVID exposure, but did allow them to operate during the bar shutdown time period. Supportive data is provided.

This study argues that the forced closure of breweries and wineries imposed an unnecessary cost and disproportionate harm to these small-business owners, with little to no health benefit (on the margin) in regard to the pandemic. Back of the envelope calculations are provided and alternative policy specifications are explored in terms of minimizing these unintended costs in the future. The implications of this policy and other potential options are vital to understand for optimizing future policy-making decisions, especially with respect to the growing brewery/winery industry within Texas.