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Beer Bonanza Has Virginia Capital Backing Bonds for Craft Brews.

Virginia's capital is raising beer money — $23 million of it.

Richmond will sell bonds next week to build a brewery for Escondido, California-based Stone Brewing Co., the ninth-largest U.S. craft-beer maker, on property that's been vacant for four decades. Stone will pay the 218,000-person city to lease the facility and won't be on the hook to repay investors. Taxpayers will.

It may be the first time a U.S. city has put its credit on the line for a maker of the beverage Americans swill millions of barrels of, and it shows how the craft-beer boom has been drafted into the long-running bidding wars among states and cities for businesses. Elsewhere, the decision to stand behind less-flourishing corporations hasn't always panned out: Rhode Island is stuck with debt that lured a now-bankrupt video game startup, while Moberly, Missouri, was burned by issuing bonds for an artificial-sweetener plant that was never built.

"There's a growing movement for craft brewing, and if there are cities and states out there trying to encourage it, it's a way of creating a new revenue base," said Howard Cure, managing director of municipal research in New York at Evercore Wealth Management, which oversees $6 billion. "These companies are smart and they play one city against another."

Craft beer, which comes from breweries that make no more than 6 million barrels a year, is the fastest-growing segment of the $102 billion U.S. market.

With the deal, Richmond is counting on the popularity of Stone's brands such as Arrogant Bastard Ale and Stone Cali-Belgique IPA. The 19-year-old company's production jumped 35 percent last year, twice as fast as craft breweries nationwide, despite a surge in competition from upstarts and behemoths such as Anheuser-Busch InBev NV.

With 22 million barrels produced in 2014, such small-scale producers account for 11 percent of the U.S. beer market, up from 5 percent in 2010, according to the Boulder, Colorado-based Brewers Association.
The growth of the industry — and its power as a tourist draw — has caught the attention of elected officials across the country, said Bart Watson, the chief economist for the association, which represents more than 2,800 companies.

"As the craft beer market has grown and these companies have grown into bigger job creators and bigger sources of economic impact, the reception from government officials has grown as well," Watson said. "We've entered this era of second facilities in different parts of the country. There's a lot more courting going on."

Sierra Nevada Brewing Co. and New Belgium Brewing Co., the third- and fourth-largest craft brewers, have begun operating East Coast facilities in North Carolina after receiving government incentives. Lagunitas Brewing Co., the sixth-largest, set up its second facility in Chicago, though it

rebuffed the junk-rated city's offers of assistance.

Job Creator

Stone picked Richmond over more than 300 other potential sites for the brewery, which will also have a restaurant and beer garden. It's projected to create 288 jobs.

Economic incentives were available at all of its other top sites, said Pat Tiernan, Stone's chief operating officer. What set Richmond apart was the opportunity to revamp an area near the James River that was never rebuilt after flooding in the 1970s, he said.

"We wanted to gauge where we got the most buzz and enthusiasm and excitement, not just with fans, but with the community, the governments at the state and local level," Tiernan said. "How they decided to fund it really had nothing to do with the selection of the site."

Tammy Hawley, a spokeswoman for Richmond Mayor Dwight Jones, said no one from the city finance department was available to comment until after the bond sale, which is scheduled for next week. Moody's Investors Service rates the $23 million of taxable debt Aa2, its third-highest grade. The credit-rating company said Stone's payments to lease the brewery will match or exceed what the city will spend on principal and interest.

"The dollar amount for the city of Richmond is not particularly burdensome, and the city of Richmond is budgeting to pay for debt service every year," said Julie Beglin, a Moody's analyst. The city has $740 million of general obligations. "That's different from other projects that we've occasionally seen where the anticipation is the project will pay and the city may or may not have available funds to pay debt service if that project failed."

One example of a bust: Key West Brewery Inc. Based near the southernmost point of the continental U.S., it defaulted in 2001 on $7.4 million of revenue bonds that it was responsible for repaying. That company was tiny in comparison to Stone: By borrowing the money, it was seeking to boost production to 39,600 barrels a year from 3,000.

By contrast, the California brewer's output will exceed 300,000 barrels for the first time in 2015, Tiernan said. He said the Richmond facility will eventually be able to make 700,000. Stone is also planning to open a brewery in Berlin.

Beer Lovers

In a sign of Stone's influence in the industry, it has the fourth-most-popular India pale ale on the website BeerAdvocate and the three most-noted American strong ales. The brewery is known for flaunting the superiority of its beers with names like Sublimely Self-Righteous.

Stone even taunts its customers, questioning whether they should drop the bottle and pick up something a bit more banal.

"It is quite doubtful that you have the taste or sophistication to be able to appreciate an ale of this quality and depth," says the Arrogant Bastard label.

Richmond is betting on the opposite.

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