



APRIL 2023

The State of Cottage Food in Arizona

Since 2011, Arizona's 'cottage food' industry (or homemade food produced for commercial purposes) has been partly legalized. According to the Arizona Department of Health Services (DHS) homemade products that are "neither potentially hazardous nor Time or Temperature Control for Safety (TCS) Foods" may be made and offered for sale, subject to labeling and registrations requirements.

DHS offers a helpful guide to approved and not approved products on its website. Examples of approved products include jams and jellies, cookies, and breads. Example of prohibited products include salsas, perishable baked goods, and tamales. As of March 2023, there 14,884 registrants with the Department to make and sell approved foods made in home kitchens.

H.B. 2509 would expand the types of foods that meet the cottage food exemption criteria to include those that are "potentially hazardous" or require temperature control, including most perishable foods except alcoholic beverages, fish and shellfish, and meat and poultry not meeting certain federal allowances.

Cottage Food Industry Background

Cottage foods are a subset of the “local food sales” market (including farmers markets, local community, family and commercial farms, and other local food sources), which has grown rapidly in recent years. According to a Pew Report citing former U.S. Secretary of Agriculture Tom Vilsack, between 2008 and 2019 the “local food sales” market sector had grown from \$5 billion to \$20 billion annuallyⁱⁱ - an average annual rate of 13.4%. Though by all accounts growth only accelerated during the pandemic period and its associated disruptions of traditional commercial food markets, even at this pace, the sector today would be worth than \$33 billion nationwide – or \$649 million/year in Arizona alone.

While the cottage food industry is likely a relatively small subset of the overall local food sector, legal acceptance has been growing rapidly since 2020. At least a dozen states have relaxed restrictions on the manufacture and sale of food at-home in unregulated kitchens since the state of 2021ⁱⁱⁱ. One state in particular – Minnesota – has allowed cottage food sales since 2015, though it expanded its annual sales limits in 2021. Over eight years the program grew from 464 to 2,918 registrants and based on data provided by the Minnesota Department of Agriculture, CSI estimates that they generated approximately \$46.1 million in sales in 2022^{iv}.

The Economic Impact of Cottage Food Legalization in Arizona

First, a note: this brief makes no claim about the safety of cottage food products – either relative to traditional commercial food or in general. State and local public health rules exist to prevent the spread of foodborne illness, and trace and isolate illness when it does spread. By avoiding these rules, it is at least possible that cottage food industries could increase the risk of food-related disease outbreaks and make those outbreaks more difficult to trace and isolate.

Second, as mentioned, Arizona’s existing program for non-perishable cottage foods has already been well established. According to DHS, there are more than 14,000 participants in the program today. On a per capita basis it is actually larger than the Minnesota program. To the extent the existing program already captures some of Arizona’s potential cottage food market, this analysis may overstate the impact of liberalization under H.B. 2509.

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Subject to the above, CSI estimates that H.B. 2509 – if enacted – **would generate \$55.3 million in new annual food sales in Arizona.** This activity would support 995 full-time equivalent jobs and a \$62 million increase in state Gross Domestic Product. Personal income would rise by \$51 million statewide, and the industry would support \$4 million in aggregate new state and local tax collections.

To arrive at this estimate, CSI assumed that Arizona’s cottage food industry under H.B. 2509 would be comparable in size to Minnesota’s. In some ways, Arizona’s law would be more permissive than that in Minnesota, while Minnesota is more permissive in others. However, critically, Arizona provides registration data based on sales volumes which enables a relatively specific estimate of industry size. \$55.3 million in annual Arizona sales based on proration of the Minnesota market data to Arizona leads to a reasonable result, given an assumed \$649 million Arizona local foods market sector.

To the extent the true size of the sector is different from that estimated here, the aggregate statewide impacts will vary as well. However, a rough multiplier policymakers can consider when evaluating an estimated market size is \$1.12 of new gross economic activity for every \$1 in assumed cottage food sales.

REFERENCES

- i. <https://www.azdhs.gov/preparedness/epidemiology-disease-control/food-safety-environmental-services/cottage-food-program/index.php>
- ii. <https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2019/03/19/as-home-cooked-cottage-food-industry-grows-states-work-to-keep-up>
- iii. <https://modernfarmer.com/2021/07/the-rise-of-cottage-food-production/>
- iv. <https://www.mda.state.mn.us/food-feed/cottage-food-data>