

Chairwoman Velazquez, Ranking Member Chabot and members of the Committee, thank you for asking me to testify today on the impacts that the recent government shutdown has had on small and independent brewers.

My name is Bill Butcher, and I am the founder of Port City Brewing Company, located in Alexandria, Virginia. Port City began operations in 2011 and since then we've grown to employ more than fifty people. We brew a variety of beers, with a number of year-round staples as well as seasonal beers and one-off efforts for special occasions. Our brewery also has a tasting room where we offer tours and sell beer. In addition, we are distributed in Virginia, Washington, D.C., and Maryland. In 2015, we were named Small Brewery of the Year at the Great American Beer Festival and our beers have won, local, national and international awards.

Even though we sell our beer around the country and in some cases overseas, Port City Brewing is committed to being a local and independent brewery. We have strong ties to our city and state. For example, we purchase close to 400,000 lbs. of Virginia-grown wheat that is used in our Optimal Wit, one of our flagship beers. We're proud of our work and the jobs that we have created not just in brewing, but also with our supply chain partners in manufacturing, agriculture and retail. We are one of the almost 200 independent breweries located in Virginia that have an economic impact of \$1.3 billion on our state.

Our brewery is just one part of the 7,100 located throughout the country. According to the Brewers Association, the trade association that represents the small and independent brewing industry, craft breweries contributed \$76.2 billion to the United States economy in 2017 and employed more than 135,000 Americans in manufacturing and service jobs. There are around 7,100 small and independent breweries across the United States, and our numbers continue to grow every day, with more than two new breweries opening every single day.

Running a brewery is a capital and time intensive business. We're dependent on the availability of agricultural inputs like hops and malted barley, as well as reliant on brewing equipment including tap handles, packaging materials and kegs. Breweries must also comply with wide-ranging local, state, and federal laws that regulate food safety, alcohol sales, and standards for labeling, canning, and bottling.

As a small business we rely on planning to make sure that we can operate our brewery, meet our suppliers needs and pay our employees. We do everything in our power to make sure that we are prepared for the year to come. We know that unexpected issues can arise, and we take the necessary steps to prepare ourselves for them. Unfortunately, no one was able to prepare for the impact that the partial government shutdown would have on breweries. Two major agencies that we rely on to run our business were closed during the 33-day shutdown, the Alcohol and Tobacco Tax and Trade Bureau (TTB) and the Small Business Administration (SBA).

The TTB is responsible for regulating not just the beer industry but also other alcohol beverage producers. Existing breweries as well as breweries in planning need the TTB for:

- **Certificate of Label Approvals (COLAs):** Also known simply as label approvals.

- Breweries are required to get TTB COLAs if they package their beer and sell it across state lines. This specifically impacts new brands and styles.
- Some states require breweries to obtain TTB COLAS for all beer sold in state and in kegs and in growlers sold from the tasting room.
- Due to brewery release calendars and supply chain constraints breweries tend to plan their releases well in advance. A delay in label approvals could impact beer releases as far away as summertime.
- **Formula Approvals:** If a brewery is brewing a beer with ingredients that are outside of the TTB’s pre-approved list they are required to get a formula approval.
- **Brewer’s Notice:** A Brewer’s notice is a permit processed by the TTB that a brewery is required to have to operate. Brewers usually apply for their federal permit several months before beginning operations. Approval of pending and new notices and other permits issued by TTB is the most serious part of the backlog, as it will delay some brewery openings even post- shutdown. This will impact breweries in planning and breweries that are applying to open satellite locations. Many notices date back to early in the fourth quarter of calendar year 2018, and brewers typically must take out significant loans to reach the point where the facility can be approved by TTB. Unlike federal employees and contractors who may ultimately be made whole after the shutdown, these businesses have no way to recoup lost business opportunities caused by the shutdown.

As you can see, a number of prior approvals by TTB are required by law to run a brewery.

You may be surprised to hear that as an industry we get along fairly well with our federal regulators. The brewing industry has a good partner in in the TTB, which over the past few years has taken steps to increase efficiency and turnaround time of label and formula approvals as well as brewer’s notices.

Year	# of Breweries	# of Malt Bev. Label Approvals
2013	2,952	17,000+
2018	7,100	34,000+

As you can see from the above chart, in the past five years the brewing industry, as well as the number of labels that require approval, have grown significantly and that doesn’t include the label approvals for wine and spirits. The TTB has grown with the industry and has worked hard to keep up with demand. Prior to the shutdown the turnaround time for label and formula approvals was anywhere between six and thirty days. At Port City our labels were often approved within two weeks.

The partial shutdown that resulted in the TTB’s closure has had a major impact on approval times. As of the writing of this testimony (February 1, 2019), the TTB estimated a fifty-three-day approval time for malt beverage labels and was only processing labels submitted by December 13, 2018 (nine days prior to the shutdown). This backlog is not the fault of the TTB. As the employees who process labels, formulas and brewer’s notices are deemed “non-essential”, they are forbidden from reporting for work for the thirty-three days the agency was closed resulting in

a significant backlog of approvals that grew exponentially each day they were closed. The TTB Market Compliance Branch, which monitors recalls and consumer inquiries was also closed during the shutdown.

	<b>Certificate of Label Approvals</b>	<b>Formula Approvals</b>
<b>Annual Approvals</b>	34,166	2057
<b>Daily Average</b>	93.6	5.6

To give you an idea of how this hurts a brewery, I will use Port City as an example. We spent the last four months of the year putting together a release calendar for 2019 beers to help us determine when we will purchase ingredients and packaging supplies. On December 18, we submitted a label for a beer we were planning to release in the spring. Until we get that label approved we can't sell that beer, which means we aren't brewing that beer, and the entire supply chain is on hold. The uncertainty isn't just impacting my business, its impacting everyone I do business with.

The backlog of approvals will impact us throughout the calendar year. It will affect our brewing schedule, our sales people, our supply chain partners and the bars and restaurants that sell our beer, and we are just one of the 1000's of breweries who are dealing with the same combination of issues.

The Brewers Association has heard from multiple members about how the backlog at the TTB is impacting them. From a brewery that is currently waiting for twenty-seven formula approvals to be able to make and sell their beer to the breweries in planning that are already pushing back their projected opening dates there are numerous examples of how the brewing industry is going to be affected by the government shutdown. Because there are breweries in almost every congressional district in the country, this a nationwide issue.

The brewing industry is growing, but for that to continue we need certainty when it comes to our regulators. Breweries need the TTB to be open so they can operate their businesses effectively and efficiently. Going forward, we are asking that TTB employees be declared essential. To our business and thousands of others, they are just that. If you empower a federal agency to give approvals for basic business activities, you need to keep them at work.

Unfortunately, time is of the essence. The upcoming deadline for funding the government has brewers throughout the country nervous about another shutdown and its long-term impacts on their businesses. We encourage Congress to work with the Treasury Department and the Office of Management and Budget to declare TTB employees essential.

The shutdown also affected Port City by furloughing SBA staff who were working on a loan application for a new bottling line. Because of the closure we were unable to lock in an interest rate which could increase the cost of our loan by thousands of dollars. SBA loans are important to the small and independent brewing industry. SBA has guaranteed loans to breweries in all 50

states, DC and Puerto Rico, with more than 1,900 loans totaling \$1.4 billion and supporting 20,000 jobs. I can attest firsthand the importance of those loans in providing the ability for businesses to grow, increase economic output and increase hiring in their communities. We ask that SBA employees who approve federally backed loans be declared essential.

Congress can also help mitigate the effects of the shutdown by making the federal excise tax (FET) rate from the Craft Beverage Modernization and Tax Reform Act permanent. In 2018, breweries, wineries and distilleries across the United States have hired new employees, increased their economic development and made capital improvements to their businesses.

The Brewers Association commissioned a sample of 545 small and independent craft brewers across the United States to participate in a survey about how the federal excise tax (FET) recalibration, which lowered the FET paid by breweries, is impacting their businesses.

The breweries who participated are located in all fifty states in the U.S. and range in size from twenty-five barrels (bbls) per year to over two million bbls per year. When asked how they are using the federal excise tax recalibration savings, responses included the following:

- 399 breweries responded that they would be increasing their economic development by purchasing new equipment, upgrading their tasting rooms and breweries, moving to new buildings, etc.
- 293 breweries responded that they would be hiring new employees at an average of 2.7 new employees per brewery.
- 216 breweries responded that they would be increasing their employee benefits by raising pay, offering insurance and expanding vacation time.
- 116 breweries responded that they would be increasing their contributions to charity.

I believe you will agree that small and independent brewers are using the tax benefits to reinvest in their respective businesses and communities across the nation. Making that rate permanent in 2019 will allow breweries to continue doing these things and help to cover potential losses that were a result of the government shutdown.

In conclusion, my company and other breweries need reliable federal partners and economic certainty to continue to grow. For breweries to keep producing and selling beer we need our federal regulators to remain open. I ask that in the future, you work to get TTB and SBA employees declared essential.

Thank you again for having me here, and I look forward to any questions you may have.