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## **OVER HALF OF HOSPITALITY BUSINESSES PROJECTED TO PERMANENTLY CLOSE BY JULY AT CURRENT PACE**

*Hospitality Coalition Proposes Economic Relief Package to Save Critical Industry*

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Hospitality Minnesota—the trade association representing 2,000 restaurants, hotels, resorts, campgrounds and outfitters in Minnesota—today led a coalition of hospitality organizations calling upon government leaders to provide an economic relief package to help save one of the state’s most critical industries. The coalition includes Hospitality Minnesota, the Minnesota Licensed Beverage Association, the Community of Minnesota Resorts and the Craft Brewers Guild (“Hospitality Coalition”).

In addition to working with the governor to re-open businesses safely and swiftly, many businesses will also need additional financial support:

“Hospitality businesses and jobs are teetering on an economic cliff. As one of the strongest drivers of Minnesota’s economy, we need to collectively step up now to save them. This will help turn the state’s budget and economy around more quickly by generating revenue,” said Liz Rammer, President and CEO of Hospitality Minnesota.

At the current pace, over half of hospitality businesses may be forced to close permanently in the next two months according to a recent survey by Hospitality Minnesota. Fourteen percent of foodservice businesses have likely *already* closed permanently.

The hospitality industry provides over 300,000 jobs in Minnesota (over 1 in 10 jobs). The industry also generates 18% of the state’s sales tax (nearly \$1 billion), without which, each Minnesota family would pay an additional \$625 per year. It also contributes significant property tax revenues for local governments and brings untold additional economic activity to our Minnesota communities through tourism and various events. During normal economic conditions our hospitality industry generates \$16 billion in sales per year (or \$1.3 billion per month).

Hospitality businesses are the cornerstone of our communities and Minnesota culture. We celebrate birthdays, family gatherings, special events, and charity, church and school fundraisers. Business deals are made. We go on first dates, get engaged, get married and celebrate our lives together at these special places “where everybody knows your name.” We share favorite meals and destinations. We springboard into Minnesota’s amazing outdoors, lakes and recreational culture through these businesses. We make memories. Hospitality is our Minnesota way of life.

We cannot allow this industry to die. For our state's economy and for our Minnesota culture we must take action to save these critical businesses. We need help to survive. Please view and share these [video testimonials from Minnesota hospitality businesses](#).

### **The federal relief is woefully insufficient to save the Minnesota hospitality industry.**

The federal relief thus far is not tailored to work for hospitality businesses:

- **Paycheck Protection Program (PPP)**: The PPP program was promoted with much promise and fanfare, but for hospitality businesses it is woefully insufficient. Consider this: in order to obtain loan forgiveness on the 250% monthly payroll loan, a business must rehire staff *quickly* and maintain staffing and payroll levels over an eight-week period that must end by June 30. That means the latest such a period could begin would be May 5. Yet in Minnesota, these businesses are shuttered (or significantly limited) by state order through at least May 18, and many anticipate a 50% volume reduction even when they are allowed to operate. These circumstances place a Minnesota operator in an untenable situation. On top of this, the SBA requires 75% of the loan proceeds to be directed to payroll. Hospitality businesses typically pay 20-45% of overhead to payroll with significant other costs that *cannot be met by PPP dollars*. This lack of flexibility and the onerous forgiveness provisions leave too many hospitality businesses out in the cold.
- **Economic Injury Disaster Loans (EIDL)**. Even before the administrative problems with the EIDL program (\$10,000 advances did not arrive swiftly as promised or at all, loan values were slashed, and the program ran out of money), the program is not designed for hospitality businesses. Many small hospitality businesses already have significant debt load, so taking on additional debt—even at a rate of 3.75%—is not helpful.

### **ECONOMIC RELIEF PLAN.**

In light of the current crisis conditions and looming economic disaster, the Hospitality Coalition will continue our advocacy for swift positive action on the following six-point plan with the Governor, MN State Legislature and the U.S. Congress:

- **The federal government must fix the PPP and provide additional funding to the State of Minnesota to support small businesses.** We ask the Minnesota delegation to support fixes in the PPP program that extend the “covered period” beyond June 30 and relax the forgiveness provisions to help small hospitality businesses. We also ask the delegation to support additional federal funding to the State targeted to support hospitality businesses on the verge of collapse. Such funding could be directed to help support the following proposed state initiatives.
- **Expand the Small Business Emergency Loan program through the Minnesota Department of Employment & Economic Development by \$120 Million.** The governor announced \$30 million of funding for these zero interest loans (50% forgivable) on March 23. The program requires significant expansion for hospitality:
  1. Immediately expand the funding for this program by \$120 million, a figure representing less than 5% of the state reserves. If there was ever a time to smartly utilize the “rainy day fund,” clearly it is now. Frankly, the State can't afford *not* to invest in saving this industry or it risks *further* economic pain and deficits. The proposed support represents an investment that will help provide long-term economic recovery for our state.
  2. Expand the program to include *all* hospitality and service industry businesses being crushed by the current economic conditions, including hotels, motels, resorts and campgrounds. Currently, only businesses listed in executive order 20-04 (such as restaurants) are eligible, even though many others are impacted (i.e. shutdown or severely limited) by the “stay-at-home” order and resulting market conditions.

3. Raise the maximum loan value from \$35,000 to \$75,000. Businesses have now been shut down or severely limited for 50 days and projecting (optimistically) limited summer revenue at 50% if they are allowed to return to operation.
- **Waive sales tax payments for hospitality businesses through October.** Given the economic circumstances currently facing hospitality businesses, we believe it is appropriate at this time to waive or significantly reduce all sales tax remittance payments. This relief will help with short-term cash flow as these businesses attempt to survive the next six months. While this policy will lead to a short-term revenue loss for the state, the goal is to help these companies remain in businesses so that they will be *long-term* generators of revenue for the State. Hospitality businesses generate 18% of the State's sales tax. They cannot play this important economic role if they are permanently put out of business.
  - **Delay May 15 property tax payments for businesses impacted by the pandemic.** Given the current economic crisis, many businesses will be unable, or significantly challenged, to pay the May 15 property tax that is due. A 90-day delay (or more) would assist these businesses with short-term cash flow and other financial obligations. We understand that the Department of Revenue has been consulting with county officials about a potential delay of these payments. Leadership from the executive branch on this issue can help to ensure uniformity across Minnesota's 87 counties (we are pleased that some counties have now moved to delay the May 15 payment as we have advocated). We also believe it is prudent for the state and counties to explore allowing hospitality businesses injured by the current crisis to forbear their 2020 property tax obligations (including the October payment) over a longer term into 2021 and with potential reductions.
  - **Establish a 90-day forbearance and rent abatement program.** We ask that the state institute a 90-day prohibition on landlords from terminating or evicting commercial tenants subjected to economic injury due to the pandemic (similar to the protections for residential tenants). We ask that rent payments be abated during this time, with an opportunity to renegotiate the terms of occupancy and/or repayment structure once we get to the other side of the current crisis. In turn, we suggest that the state work with the federal government to direct mortgage lenders to work with commercial property owners impacted by the crisis so that they are afforded appropriate forbearance options. In the long-term this will benefit all parties.
  - **Suspend all regulatory fees through December 2020.** The State should suspend all regulatory and licensing fees for hospitality businesses through the end of the year and direct or encourage local governments to do the same.

## **BACKGROUND.**

**Hospitality businesses are being financially crushed.** At the current pace, over half of hospitality businesses may be forced to close permanently in the next two months according to a recent survey by Hospitality Minnesota. Fourteen percent of foodservice businesses have likely *already* closed permanently. Even prior to the "stay-at-home" order, these businesses were being put in jeopardy:

- The American Hotel & Lodging Association reports that as of March 31, Minnesota's hotel sector has lost 58,972 direct hotel-related jobs, with a total of 131,048 jobs lost supporting the hotel sector.
- Ninety percent of Minnesota restaurant and bar operators say they have laid off or furloughed employees since the beginning of the coronavirus in March. The National

Restaurant Association estimates that this accounts for more than 150,000 employees. Over 90,000 in foodservice have been laid off since the crisis began.

- Based on a recent survey, the National Restaurant Association estimates that Minnesota's restaurant, bar and food service industry will lose more than \$675 million in sales in April if trends continue through the end of the month. This is on top of the equally steep losses in March.
- Financial pressures facing resorts and campgrounds are significant, and we've seen the demise of more than 500 Minnesota resorts and campgrounds in the last 15 years. Seasonal businesses make all their revenue during the summer months, with no means to make up losses during the fall or winter. With a complete summer tourism season in jeopardy due to increasing guest cancellations, many more face potential bankruptcy.
- 54% of breweries estimate they will have to close within the next 3 months. Breweries have lost an estimated \$26 million in revenue since the closure period started.

Hospitality businesses are *particularly* vulnerable to this economic crisis because they often operate on much thinner margins than other businesses (for example, many restaurants and bars operate on 2-5% margins compared to other small businesses at 10%).

**Economic impact of the hospitality industry in Minnesota.** The hospitality industry provides over 300,000 jobs in Minnesota (more than 1 in 10). The industry generates 18% of the state's sales tax, significant property tax revenues for local governments and brings untold additional economic activity to our Minnesota communities through tourism and various events. During normal economic conditions our hospitality industry generates \$16 billion in sales per year (or \$1.3 billion per month).

Currently, however, with occupancy rates at 10% nationally and a limited to-go food/beverage model that only generates 10-20% of typical revenue, these businesses are bleeding money. They cannot continue on this path. These businesses have been forced to lay off 75-90% of their workforce, but other financial obligations continue, including loan and lease payments (there has been no relief for commercial properties), tax obligations, regulatory costs, insurance payments (including insurance to pay for liquor liability even when a business is closed), ongoing vendor payments, and myriad other costs. These obligations continue, but with 0-20% of normal revenue they cannot be met. This is not sustainable and bankruptcy looms. If we lose half of this industry in Minnesota this summer—an industry that supports over 1 in 10 jobs—the economic ripples will be massive for years to come. No industry has been hit harder than the hospitality industry and if we do not act now, it is to all of our collective economic peril.

**Hospitality businesses need real economic relief to survive.** To date, the State's spending priorities have rightly been focused on the public health response, including expanding health care capacity, equipment and testing. These priorities must continue, especially in the area of testing. Significant funds should be directed to supporting an industry that supports 1 in 10 jobs in this state, especially since it has been hardest hit by the regulatory and market conditions wrought by COVID-19, in partnership with support from the federal government. Consider that the Commissioner of the Department of Employment and Economic Development ("DEED") has indicated that 80% of workers continue to be employed in Minnesota through the crisis, and yet in the hospitality industry (the majority of unemployment claims), a majority of operators have been forced to lay off 75-90% of employees.

The hospitality industry is an important long-term contributor to our state's economy, culture and our residents' health and well-being. It is critical that we do everything possible to help support these businesses now and as we go forward.

**Hospitality Minnesota** represents more than 2,000 restaurants, resorts, hotels, campgrounds, outfitters and other hospitality businesses in Minnesota.

**The Minnesota Licensed Beverage Association** has been helping licensed beverage retailers in the state of Minnesota since 1952 with information resources, educational programs and government affairs services designed to promote and protect their business.

**The Community of Minnesota Resorts** is an industry association dedicated to the mission of helping family-owned and operated resorts in Minnesota to continue as a viable segment of the Minnesota tourism industry. We assist members in marketing and education and assure a voice at the Minnesota state capitol.

**The Minnesota Craft Brewers Guild** is a not-for-profit organization that was founded in 2000 and is made up of more than 150 Minnesota brewery members. The Minnesota Craft Brewers Guild's mission is to promote, protect, and grow a robust Minnesota craft brewing industry by building a healthy beer culture and community that allows for independent brewers, industry stakeholders, and craft beer fans to thrive.