



April 23, 2020

The Honorable Tim Mahoney, Chair
House Jobs & Economic Development Finance Division
Minnesota House of Representatives
365 State Office Building
Saint Paul, MN 55155

Re: DEED Small Business Emergency Loan Program

Dear Chair Mahoney:

Thank you for the opportunity to comment on the Department of Employment and Economic Development's (DEED) Small Business Emergency Loan Program for your April 24 hearing.

On March 23, Governor Walz directed DEED to create a small business emergency loan program for loans up to \$35,000 at zero interest with forgiveness provisions. We were extremely grateful for the governor's action as this was one of the channels of relief we had been advocating for. We respectfully request, however, that this program be expanded significantly to help save hospitality businesses from economic collapse:

1. **Eligibility for the program should be expanded** beyond the industries "named" in executive orders 20-04 and 20-08 to include hotels, motels, resorts, campgrounds, RV parks and other tourism-related businesses. Currently these businesses are not eligible for relief even though they are being financially crushed in the current environment. While not "named" in these orders, they have been significantly affected by the current "stay at home" order and market conditions related to COVID-19. Lodging facilities are at 10% occupancy. Resorts, campgrounds, outfitters and others are sustaining significant cancellations and are faced with business failure. These businesses need help and deserve to be included.
2. **Investment in this program should be significantly expanded** beyond the initial \$30 million in funding and the proposed \$50 million in additional funding. On average, the hospitality and tourism industry generates over \$1.3 billion in sales per month (\$16 billion per year). These businesses' revenue has been decimated in the last two months, yet their financial obligations remain (tax payments, rent/mortgage, utilities, insurance, vendor payments, etc.) They are left with no money to meet these obligations. We are fully aware that the state has limited resources between the current surplus, the state reserves and the \$2.187 infusion from the federal government through the CARES Act. We believe it is prudent, however, to make a much larger investment in saving this industry, given that it represents 1 in 10 jobs in Minnesota. If this requires requesting more federal aid, we are ready to stand with the State in such a request.
3. The maximum **loan value should be increased** well above \$35,000. The economics of running a hospitality business are such that the various tax payments, rent/mortgage, utilities, insurance, vendor payments, and other obligations can easily outstrip such a cap.

Hospitality businesses operate on very thin margins (often in the 2-5% range compared to 10% for other small businesses). We would be happy to engage in further conversations about how to right-size these loan values and additional funding to meet demand.

The hospitality industry is in danger. In addition to these thin margins, hospitality businesses are particularly vulnerable in the current crisis because, by its very nature, it is based on human interaction (there is no “work-at-home” option for this industry). At the current pace, **over half of hospitality businesses may be forced to close permanently in the next one to three months** according to a recent survey by Hospitality Minnesota. Survey data from the National Restaurant Association indicates that as many as fourteen percent of restaurants may have *already* closed permanently in Minnesota (see below). Even prior to Stay-at-Home, with the business closure 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 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 restaurant employees**.
- Based on a recent survey, the National Restaurant Association estimates that Minnesota’s restaurant and food service industry will lose more than \$675 million in sales 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 as **Minnesota has already lost over 500 resorts and campgrounds in the last 15 years**: with a complete summer tourism season in jeopardy due to increasing guest cancellations, **many more face potential bankruptcy**. (Seasonal businesses make all their revenue during the summer months, with no means to make up losses during the fall or winter).

The Hospitality industry’s survival is critical to Minnesota’s economy. This industry generates \$16 billion in sales per year and 18% of the state’s sales tax. The industry provides 300,000 jobs (1 in 10 employees) in Minnesota. It is in everyone’s shared interest that this industry survives and succeeds. We know that it is going to be a long road to recovery, and we are ready to work with state and local authorities to bring solutions that work to bear on the crisis.

The federal relief is woefully insufficient to save the hospitality industry. The federal relief thus far is not tailored to work for hospitality businesses:

- **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.
- **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 4, and many anticipate a 50% volume reduction even when they are allowed to operate. On top of which, even if an operator wants to rehire every employee right now, the current generous unemployment benefits in Minnesota, coupled with the additional \$600 per week from the federal benefits, disincentivize many workers from returning until sometime in July. These circumstances place a Minnesota operator in an intractable

situation. The lack of flexibility and the onerous forgiveness provisions leave too many hospitality businesses out in the cold.

We have been working (and will continue to work) with our partners at the national level to fix the deficiencies in these programs. Despite these efforts, however, the most **recent federal legislation passed to add funding to these programs did not fix the problems with PPP**. This is extremely disappointing. We will continue to advocate at the federal level, but the limitations of the federal response necessitate a more robust state response.

We appreciate your consideration of our comments and suggestions for additional relief. We would be happy to work with you collaboratively in any way possible to help save small businesses from the economic peril that the COVID-19 crisis has wrought upon the hospitality industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Liz Rammer". The signature is fluid and cursive, with a long horizontal stroke at the end.

Liz Rammer, President & CEO

cc: House Jobs and Economic Finance Division Members
Senator Eric Pratt, Chair, Senate Jobs and Economic Growth Finance & Policy Committee
Senator Bobby Joe Champion, Ranking Minority Member, Senate Jobs and Economic
Growth Finance & Policy Committee
Commissioner Steve Grove, Department of Employment & Economic Development
Director John Edman, Explore Minnesota Tourism
Ms. Hue Nguyen, Governor's Office Deputy Chief of Staff for Policy & Legislative Affairs
Mr. Patrick Tanis, Governor's Office Assistant Chief of Staff for Public Engagement