

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: May 5, 2020

TO: Honorable Members of the City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No: 20-0002-S50
Assignment No: 20-04-0449

SUBJECT: Resolution (O'Farrell-Krekorian) to SUPPORT federal actions that would provide assistance to independently-owned restaurants and restaurant employees.

CLA RECOMMENDATION: Adopt the revised Resolution to include in the City's 2019-20 Federal Legislative Program, SUPPORT for legislation and/or administrative action that would provide assistance to small businesses by modifying the Paycheck Protection Program.

SUMMARY

Resolution (O'Farrell-Krekorian), introduced on April 22, 2020, describes that in light of the recent federal stimulus package, independent restaurants are still facing the possibility of closure before the end of the pandemic. Citing that independent restaurants directly employ 11 million workers nationwide and indirectly support tens of millions more throughout the food and hospitality supply chain, the Resolution calls on Congress to act urgently to modify the Paycheck Protection Program to provide additional benefits to independently owned restaurants and restaurant employees. After further discussing the matter with the Office of Council District 13, the Resolution was broadened to all small businesses, as numerous service providers, including restaurants, will be impacted by COVID-19 for months to come.

BACKGROUND

According to the Independent Restaurant Coalition, independent restaurants directly employ 11 million workers, indirectly employ tens of millions, and contribute \$1 trillion to the nation's economy each year. As a result of COVID-19, restaurants across the nation were ordered to close, resulting in tremendous economic losses, layoffs, and increased risk of bankruptcy. In response to the devastating impact COVID-19 is having on the economy, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (S. 3548 - McConnell) was signed into law on March 27, 2020.

Under the CARES Act, the Paycheck Protection Program (PPP) provides small businesses with low-interest loans to cover payroll costs, mortgage interest, rent, and utilities for eight weeks. The interest rate on a PPP loan is one percent with a two year term and the loan will be forgiven if the business uses the proceeds to maintain employees on the payroll. The restaurant industry received special recognition which allows both small restaurants and large chain restaurants to participate in the program.

On April 24, 2020, the President signed the Paycheck Protection Program and Health Care Enhancement Act. This is the fourth legislative measure taken by Congress in response to the pandemic and is referred to as the "COVID 3.5" bill. COVID 3.5 provides additional funding for

hospitals and COVID-19 testing, as well as an additional \$321 billion to replenish the PPP, which was exhausted within 13 days of its original funding allocation.

To address the economic challenges facing independently-owned restaurants, Resolution (O'Farrell-Krekorian) seeks modification of the PPP program by adding the following provisions:

- Extending the coverage period from eight weeks to three months after restaurants can legally reopen to full capacity;
 - The PPP loan is based on 2.5 times the average 2019 monthly payroll costs, which can be used to cover eight weeks of payroll, mortgage interest, rent, and utilities. However, after eight weeks expire, restaurants may still be closed and faced with having to lay off staff yet again. This amendment would extend the amount of time restaurants have to spend the PPP loan and still be eligible for loan forgiveness, providing the industry with flexibility in how they manage re-opening.
- Reinstating the \$500 million gross revenue cap;
 - A draft version of the PPP contained a \$500 million gross revenue limit, which was intended to separate the small, independent restaurants from large, well-capitalized businesses that have more resources. News reports identified large, national restaurant chains that had received PPP funds, though the program was not intended to assist these businesses. A cap would ensure that smaller businesses receive funds.
- Increasing the length of time restaurant owners have to repay their loans from two years to 10 years;
 - For portions of PPP loans that cannot be forgiven, borrowers must repay the loan within two years. A draft version of the PPP set a 10-year term to repay a loan. A longer term will provide those restaurants whose loans are not fully forgiven with the time necessary to make payments.
- Launching a Restaurant Stabilization Fund that provides up to \$100 billion in grants to independent restaurants;
 - Provides assistance beyond rehiring employees.
- Creating new tax rebates that encourage employment; and,
- Ensuring that business interruption insurance covers COVID-19 related interruptions.

We recommend that the Resolution be revised to extend the proposed amendments to all small businesses, as numerous service providers besides restaurants will be impacted by COVID-19 for months to come. The Los Angeles County Economic Development Corporation estimates that for the Los Angeles-Long Beach-Anaheim Metropolitan Statistical Area, over 1.7 million jobs could be lost due to the COVID-19 stay at home order. While the PPP program is supplying aid to small businesses, hundreds of millions of dollars in PPP aid has also been loaned to publicly traded, larger businesses, which have more resources to address the crisis. For these reasons, we provide a revised Resolution to eliminate publicly traded companies from eligibility and extend the proposed amendments to all small businesses.

BILL STATUS

N/A

Clay McCarter - rg
Clay McCarter
Analyst

Attachment: 1. Resolution (O'Farrell-Krekorian)
 2. Revised Resolution

RESOLUTION

WHEREAS, any official position of the City of Los Angeles, with respect to legislation, rules, regulations or policies proposed to or pending before a local, state, or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the most recent COVID-19 response bill, S. 3548 (McConnell), the Coronavirus Aid, Relief, and Economic Security Act provides support for many small businesses, but hundreds of thousands of independent restaurants are still facing the possibility of closure before the end of the pandemic; and

WHEREAS, Los Angeles has become a world-renowned culinary destination, with revered restaurants in Thai Town, Little Armenia, Koreatown, Historic Filipinotown; and a rich history of Mexican, Central American, and South American cuisine; and

WHEREAS, independently-owned restaurants directly employ 11 million workers nationwide and indirectly support tens of millions more throughout the food and hospitality supply chain; and

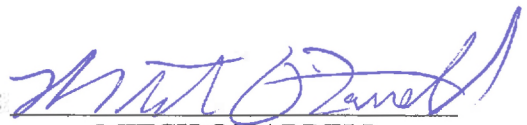
WHEREAS, Congress must act urgently and decisively to provide additional assistance to restaurants and their employees in order to protect this critical sector of our economy, which also serves a unifying role in Los Angeles;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes into its 2019-2020 Federal Legislative Program SUPPORT for any legislation and/or administrative that would provide assistance to independently-owned restaurants and restaurant employees by: fixing the Paycheck Protection Program by extending the maximum loan amount to three months after restaurants can legally reopen to full capacity, reinstating the \$500 million gross revenue cap on Paycheck Protection Program loans, and increasing the length of time restaurant owners have to repay their loans to 10 years from two years; launching a Restaurant Stabilization Fund that provides up to \$100 billion in grants to independent restaurants; creating new tax rebates that encourage employment; and ensuring that business interruption insurance covers COVID-19 related interruptions.



APR 22 2020

PRESENTED BY:



MITCH O'FARRELL
Councilmember, 13th District

SECONDED BY:



ORIGINAL

RESOLUTION

WHEREAS, any official position of the City of Los Angeles, with respect to legislation, rules, regulations or policies proposed to or pending before a local, state, or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, the Coronavirus Aid, Relief, and Economic Security Act (S. 3548 - McConnell) provides support for small businesses through the Paycheck Protection Program (PPP), but hundreds of thousands of independent restaurants, salons, spas, and other personal service businesses are still facing the possibility of closure before the end of the pandemic; and

WHEREAS, Los Angeles has become a world-renowned culinary destination, with revered restaurants in Thai Town, Little Armenia, Koreatown, historic Filipinotown; and a rich history of Mexican, Central American, and South American cuisine; and

WHEREAS, independent restaurants directly employ 11 million workers nationwide and indirectly support tens of millions more throughout the food and hospitality supply chain; and

WHEREAS, larger, publicly traded companies who qualified under the PPP have received hundreds of millions of dollars in aid, while thousands of smaller businesses wait for assistance; and

WHEREAS, Congress must act urgently and decisively to provide additional assistance to small businesses and their employees, including but not limited to restaurants, salons, spas, and other personal service businesses, in order to protect this critical sector of our economy, which also serves a unifying role in Los Angeles;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2019-2020 Federal Legislative Program SUPPORT for any legislation and/or administrative action that would provide assistance to small businesses and their employees by: amending the Paycheck Protection Program by making publicly traded companies ineligible for funding, extending the coverage period from eight weeks to three months after businesses can legally reopen to full capacity, reinstating the \$500 million gross revenue cap on Paycheck Protection Program loans, increasing the length of time owners have to repay their loans from two years to 10 years; launching a Restaurant Stabilization Fund that provides up to \$100 billion in grants to independent restaurants; creating new tax rebates that encourage employment; and ensuring that business interruption insurance covers COVID-19 related interruptions.