

February 15, 2022

The Honorable Marvin Abney
House Committee on Finance
Rhode Island State House
Providence, RI 02903

Re: ARPA Proposal – Impacted Industries

Dear Chairman Abney:

On behalf of the RI Hospitality Association, I write in support of the Governor's proposal to direct some of the State's ARPA funds to aid impacted industries, which included restaurants, hotels and tourism businesses.

The industry recognizes that the State is balancing various needs when considering the distribution of these funds, but we would be remiss if we did not highlight the oversized importance of the hospitality industry to Rhode Island. **Rhode Island's hospitality industry is the cornerstone of Rhode Island's economy - unless we successfully rebuild, the State cannot rebuild.**

Current State of the Industry


As COVID case numbers began to fall in early summer 2021, and with the introduction of COVID-vaccines, the industry slowly began to rebound, leading many to hope the end of the pandemic was near.

However, by the fall of 2021, the Delta variant began to slow the industry's recovery. When the Omicron variant led to an end of the year surge during the important holiday season, real sales dropped below pre-pandemic levels by the end of 2021.¹

¹ "Real restaurant sales fell below pre-pandemic levels in December." National Restaurant Association, January 2022.

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The Omicron variant led to a rapid deterioration in business conditions for hospitality businesses in Rhode Island. 98% of restaurants experienced a decline in customer demand for indoor on-premises dining in recent months, as a direct result of the latest surge in case numbers.²

Unfortunately, the timing of the Omicron variant meant that Rhode Island's hospitality businesses lost out on valuable business during the all-important busy holiday season:³

- 54% reduced hours of operation on days that it is open
- 46% closed on days that it would normally be open
- 26% reduced seating capacity
- 7% changed to only offering off-premises for a period of time

As a result, 89% of operators say business conditions for their restaurant are worse now than they were three months ago. This was on top of the cumulative effects of almost two years of pandemic-induced challenges:

- 67% of operators say their restaurants accumulated additional debt since the beginning of the COVID-19 outbreak in March 2020.
- 64% of operators say their restaurant fell behind on expenses since the beginning of the COVID-19 outbreak in March 2020.
- 76% of operators say their restaurant is less profitable now than it was before the beginning of the COVID-19 outbreak in March 2020.⁴

A majority of restaurants have not experienced a complete sales recovery to pre-pandemic levels.

- 62% of operators say their sales volume in 2021 was lower than it was in 2019.
- Only 17% of operators reported a same-store sales increase between 2019 and 2021.⁵

Much of the sales growth in 2021 was driven by higher menu prices, as restaurant operators were forced to offset sharply rising costs throughout their restaurant. 93% of operators say their restaurant's total costs (as a percent of sales) were higher in December 2021 than they were in December 2020. Only 5% of operators reported lower costs.⁶

² "COVID-19 Restaurant Impact Survey – January 2022 – Rhode Island." January 24, 2022.

³ "COVID-19 Restaurant Impact Survey – January 2022 – Rhode Island."

⁴ "COVID-19 Restaurant Impact Survey – January 2022 – Rhode Island."

⁵ "COVID-19 Restaurant Impact Survey – January 2022 – Rhode Island."

⁶ "COVID-19 Restaurant Impact Survey – January 2022 – Rhode Island."

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Customer traffic levels also remained below 2019 levels for most restaurants. 71% of operators say their customer traffic in 2021 was lower than it was in 2019.⁷ Only 10% of operators reported an increase in customer traffic between 2019 and 2021.⁸

Supply Chain Breakdown

The United States is experiencing an unprecedented breakdown in our supply chain, leaving businesses and consumers scrambling to find the supplies they need. 95% of Rhode Island restaurant operators say their restaurant experienced supply delays or shortages of key food or beverage items during the past six months.⁹

The consumer price index climbed 7% in 2021, the largest 12-month gain since June 1982, according to Labor Department data.¹⁰ The widely followed inflation gauge rose 0.5% from November, exceeding forecasts.

Average wholesale food prices jumped 14% between December 2020 and December 2021. **That represented the largest 12-month increase since 1980, and the first time since 1979 with five consecutive 12-month gains above 10%.**¹¹

Several of the major commodities in the wholesale food price index stood well above their year-ago levels in December, including eggs (95.5%), fats and oils (41.4%), butter (37.3%), flour (32.9%), seafood (30.0%), beef (28.9%) and processed poultry (26.2%).¹²

Menu-price growth continued to gain speed in January, according to data from the Bureau of Labor Statistics. Average menu prices increased 6.4% between January 2021 and January 2022, which represented the strongest 12-month gain since 1982.¹³

⁷ "COVID-19 Restaurant Impact Survey – October 2021 – Rhode Island."

⁸ "COVID-19 Restaurant Impact Survey – January 2022 – Rhode Island."

⁹ "COVID-19 Restaurant Impact Survey, Rhode Island." National Restaurant Association, September 2021.

¹⁰ "U.S. Inflation Hits 39-Year High of 7%, Sets Stage for Fed Hike." Bloomberg News, January 12, 2022.


¹¹ Bureau of Labor Statistics

¹² "Wholesale Food Prices." National Restaurant Association.

¹³ "Menu Prices." National Restaurant Association.

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The recent acceleration in menu prices was due largely to higher input costs – particularly food and labor. In a January 2022 survey fielded by the National Restaurant Association, 83% of operators said their restaurant's total costs (as a percent of sales) were higher in December 2021 than they were in December 2020. Only 9% of operators reported lower costs during the 12-month period.¹⁴

Impact on Hotels

On the hotel side, the outlook is even more dire. Rhode Island hotels were expected to lose over \$100 million in business travel in 2021 – a drop of almost 63% when compared to 2019.¹⁵ In 2020 alone, Rhode Island hotels lost more than 1,770 jobs and by the end of 2021, hotels were predicted to lose over 950 jobs.¹⁶

In 2019, the nation's nearly 60,000 hotels experienced an average annual hotel occupancy of 66%, selling 1.3 billion rooms.¹⁷ The pandemic brought U.S. hotel occupancy to a historic low of 24.5% in April 2020, and annual occupancy fell to 44% for the year.¹⁸

Hotel occupancy for 2021 was estimated at nearly 58%—a full five points higher than had been projected this time last year, **but still down more than eight percentage points from pre-pandemic levels.**¹⁹

While some full-service hotels begin operationally breaking even at 50% occupancy, this does not account for mortgage debt and other costs. Most hotels spent the last two years well below their break-even point, relying on reserves to cover expenses. Even with a return to near pre-pandemic occupancies in 2022, hotels have a way to go before true recovery.²⁰

¹⁴ "2022 State of the Industry Report." National Restaurant Association, February 1, 2022.

¹⁵ "Analysis; Hotel Business Travel Revenue by State." Kalibri Labs, August 2021.

¹⁶ "State by State Job Loss." Oxford Economic Analysis, February 2021.


¹⁷ STR, © 2022 CoStar Group


¹⁸ STR, © 2022 CoStar Group

¹⁹ STR, © 2022 CoStar Group

²⁰ "State of the Industry Report." American Hotel & Lodging Association, January 2022.

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Industry experts project that only a little over half of meetings and events will return in 2022, with the negative impacts of the Omicron variant still to be determined.²¹ Occupancy rates and room revenue are projected to approach 2019 levels in 2022, but the outlook for ancillary revenue is less optimistic.

Business travel is expected to remain down more than 20% for much of the year, only 58% of meetings and events are expected to return, and the full negative effects of Omicron are not yet known.²²

Countless hotels in Rhode Island are struggling to pay even their most basic bills, hopeful that they will be able to stay afloat until help arrives. These hotels are some of the largest employers in Rhode Island, particularly in Providence. The loss of these businesses would be catastrophic for the employees who depend on these jobs and the communities that benefit from these establishments.

Further compounding the crisis, many hotels in Rhode Island have been shut out of the economic relief programs offered by the federal and state government, leaving these large employers teetering on the brink of closure.

This is particularly felt in Providence, which in 2020, saw an almost 70% decline in revenue when compared to 2019.²³ While the numbers have improved slightly in 2021, Providence hotels are still down more than 35%.

These numbers are made worse by the continued loss of meetings, conventions and sporting events – since 2020, the cancellation of these events has led to a loss of \$78 million in direct spending.²⁴ This trend is expected to continue, with a report from *Tourism Economics* indicating that travel and tourism won't return to normal until the middle of 2024.²⁵

²¹ "Knowland Releases U.S. Meetings Recovery Forecast," Lodging Magazine, November 12, 2021

²² "State of the Industry." American Hotel & Lodging Association, January 2022.

²³ RI Department of Revenue, Hotel Tax Reports

²⁴ Providence Warwick Convention & Visitors Bureau

²⁵ "Travel Forecast." Tourism Economics, June 15, 2021.

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Industry still struggling with staffing shortages²⁶

While the restaurant and foodservice industry added back 1.7 million jobs during 2021 for an end-of-year total of 14.5 million employees, many restaurants remain severely understaffed, and this will continue to constrain industry growth in 2022.

Despite some gains, 70% of operators across all major segments say their restaurant currently does not have enough employees to support customer demand and most operators expect their labor challenges to continue through next year.

Key figures on the restaurant workforce include:

- Roughly 50% of restaurant operators in the full service, quick service, and fast-casual segments expect recruiting and retaining employees to be their top challenge in 2022.
- Between 2023 and 2030, the industry is projected to add an average of 200,000 jobs each year, with total staffing levels reaching 16.5 million by 2030.
- 75% of operators said they plan to devote more resources to recruiting and retaining employees.

Industry Needs

Our industry is in continued need of economic relief, including direct aid grants to help replace revenue loss. Businesses are faced with a growing cash-flow challenge – many hospitality businesses, particularly restaurants, depend on the holiday season to sustain them during the lower-performing months of the first quarter. The uncertainty of the Omicron variant, coupled with two weekend snowstorms, have left the industry struggling to sustain their businesses.

At this point in the pandemic, direct aid grants are the most effective economic relief tool. It gives businesses the ability to use the financial aid in the way that best fits their unique business model.

Direct Aid Grants

As you know, part of the American Rescue Plan was the Restaurant Revitalization Fund. Unfortunately, due to the overwhelming need in the industry, only 446 Rhode Island businesses

²⁶ "2022 State of the Industry Report." National Restaurant Association, February 1, 2022.

received grants out of 1,969 applications – **only 22% of applicants.**²⁷ This has created chaos in the industry, with the lucky few who received RRF funding able to sustain their businesses, while their neighbors struggle to keep the lights on.

While we understand that the \$208 million price tag of fully funding Rhode Island RRF applicants is steep, it also highlights the incredible losses sustained by the industry. It is also important to note that many businesses, particularly hotels, were shut out of several of the economic relief programs, including the RRF.

Technical Assistance Program

As the hospitality industry continues to rebuild, we are adapting to the “new normal.” Long-established businesses are having to change their business practices.

We ask that the portion of the ARPA be used to develop an industry-specific technical assistance program that can help the hospitality industry:


- Upgrade websites, online ordering and delivery systems, and other technological modernization needs.
- Access to professional services to adapt business plans, corporate structures, employee benefit programs, etc.
- Technical training programs for businesses and staff.


Investing in the hospitality industry is investing in Rhode Island

Rhode Island’s economy cannot recover until Rhode Island’s hospitality industry recovers. Using ARPA funds to bolster that recovery not only will provide much needed funds to the cornerstone of our communities – it will also drive additional dollars back into our economy.

- In FY2019, we generated \$292.2 million in sales tax, meals and beverage tax, and hotel tax.
- We employed almost 15% of Rhode Island’s workforce, with over 86,000 people depending on us to support their families.

²⁷ Small Business Administration

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- For every dollar spent in Rhode Island restaurants, we generate \$1.73 back into the local economy. This is reflected in the \$2.7 billion in sales generated by Rhode Island restaurants.
- Pre-pandemic, hotel jobs generated \$363 million in wages and salaries in the State and generated over \$1 billion in hotel guest spending.

Our industry is the cornerstone of our community and one of the shining stars of our economy. We ask that the General Assembly use some of the ARPA funding to invest in our recovery.


If you have any questions, please don't hesitate to contact us at 401-223-1120 or sarah@rihospitality.org.

Sincerely,

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