

Save Our Restaurants

April 13, 2020

To: Yachats City Council

From: Bob Barrett, Linda Hetzler, Michelle Korgan, Tom Lauritzen, Greg Scott

The Problem

With the mandated closure of most businesses, owners have little or no income to pay for rent / mortgages, utilities, legal and accounting services and other expenses. The problem is a lack of cash to meet obligations. Restaurants, like most retail businesses, are low-margin and owned by entrepreneurs, without a corporate parent, shareholders or large lines of credit.

Recent news has created a perception that small business loans and grants are available. Recent experience of local small business owners tells a very different story. Government agencies have been swamped with support requests and are unprepared or unable to meet requests for information or real assistance. This is a time sensitive issue. If four or five tax collecting businesses fail, this is going to adversely impact future city tax collections. Small businesses need an infusion of cash and not additional debt.

What is Needed

Small tax collecting businesses need an immediate infusion of money. This will buy time for other relief systems like the Small Business Administration to come up to speed and begin to address economic support for of small businesses. In 2019 restaurants provided over \$400,000 of tax revenue to fund the debt service on loans for the waste water treatment plant.

How Can the City Help

During the 2007-08 economic downturn, the city tapped the visitor amenities fund and spent \$60,000 a year for about four years to encourage people to continue coming to Yachats. The city council reasoned it made sense to invest in the existing businesses by using tax revenue to market and present Yachats as a desirable visitor destination. A marketing director was hired; beautification projects were undertaken and the GoYachats web site was created. As a result, Yachats is one of the only coastal cities that was not significantly impacted by a reduction in visitor traffic. All of this was paid from the visitor amenities fund.

What are the Options

While there are restrictions on how the city can spend tax receipts, we believe the city council has the authority to forgive or refund taxes to the organization that collected them. This approach is simple. It treats all the businesses the same and the amounts are easily determined based on the existing invoice and payment history.

Recommendation

Limit this program to businesses that collect food and beverage taxes. We suggest refunding the taxes collected by restaurants during October, November and December, 2019 and paid in January, 2020. This would be a one-time tax refund effort and compliments the effort made last week to defer payment of the taxes collected in January, February and march of 2020.

We know the council will have questions about the financial implications of this program. Those details are discussed in the financial appendix.

This is an opportunity for the city do the right thing that benefits the entire community. It is also consistent with previous council action during a time of economic stress. It will send a positive

message to the people that visit, to Yachats workers and the business community. This is a time to pay it back and it will generate a lot of good will while demonstrating again how Yachats is different.

Financial Appendix

Food and Beverage Tax

Food & beverage taxes are earmarked for sewer debt service related to the new sewer plant. The money is set aside in a reserved fund that had a fund balance of \$768,615 at the end of June of 2019. The sewer debt service payment for this year is \$340,139 while the total debt payment is \$413,567 so there is ample cash available to meet all debt obligations.

At the time the food and beverage tax was imposed, the assumption was it would cover about 25% of the debt service with other sources [sewer fund, general fund, SDC] contributing the difference. Looking at the last audit report, The sewer debt payment this year will be \$340,139 or a little over \$28,000 a month. So last calendar years food and beverage tax receipts exceeded the total debt service obligation by almost 120%. This is significant because it takes pressure off other funds.

The 2007 referendum asking voters to affirm the tax was approved by a vote of 280 to 111 or a 71.6% margin.

Restaurant Owners Appendix

Green Salmon

Restaurants as opposed to other types of business are reliant on DAILY cash flow. The restaurants of Yachats are further challenged because the greatest cash flow comes from only a few months of summer and this must be meted out for the year. The liabilities and mortgage, insurance payments etc.. do not stop even though we have closed our doors. We lost out on the annual financial boost from Spring Break, and are logically looking at a bad economic year to come and are currently in a frozen state where being closed is "safer" than opening and creating more bills with distributors and trying to make enough sales to pay our staff; the bank account will still get chipped away, but more slowly than if open.

Trying to get assistance from the SBA has been frustrating; I spent an afternoon filling out an actual disaster loan application as soon as I closed the business only to have them contact me a week later and tell me my application didn't "count"- that I must now go and fill out their new "stream-lined" application. The new "stream-lined" application took about ten minutes and did not represent any kind of financial picture of the business (unlike the first true application that was rejected). This was basically a form to fill out stating that I would like to potentially receive a \$10,000 advance on a potential loan application. (I found this deceiving in a way, since that \$10,000 is supposed to be a grant.) I started the process of seeking this disaster loan on March 20 and have received absolutely no communication regarding the grant or if I will be allowed to apply for an actual loan. Honestly I do not have a lot of faith in SBA based on two past experiences of trying to work with them. They do not seem to understand that a restaurant doesn't build large amounts of capital but thrives on the in and out flow of cash needed to buy ingredients, create and sell food and drink; nor do they see the value of a business that provides jobs for 10 people in a small community.

I pursued a PPP payroll loan on the day they were "made available" only to find that banks would not let anyone apply for this loan unless they were already customers. My bank took 5 days from my original inquiry to have an online application available (would not take the government paper application) I filled out an online preliminary request and 2 days later I received a list of documentation needed which I sent immediately and it has now been a week and I have still not found out if I will get this loan.

In addition to this, because I am an owner of a business the protocol for filing for unemployment is different than other salaried workers and I still have received no letter stating that I am going to receive benefit since my application 2 weeks ago.

Deborah
Green Salmon Coffee Co.

Drift Inn

I have had much the same experience with the government programs that Deb laid out. Tom and I took off for a couple days to help me de stress. He fished while I spent the day filling out sba loan applications and talking with several folks from various sba offices. The requirements were changing hourly. Everyone who submitted paper applications were left in the dust and likely will get nothing, at least this go around.

I've stopped my garbage service, cancelled tv service, laid off the bulk of my employees. I thought I could keep a few going by making frozen and deli meals to go. The business started out strong with the community being supportive along with a few tourists. It's slowed down and basically is just making enough money to pay the few folks I've kept employed. Not enough to pay the mortgages or the power bill. I own a couple rentals for my employees and only one of the 10 people living in the homes have received an unemployment check so far.

The financial margins in restaurants is very slim. I am a very frugal innovative driven person. I have learned to reinvest in my business, to diversify and to "underwrite" certain aspects of my businesses for multiple reasons; one being financial. The city is a business per se and survives off the success of others, just like the federal government. It is smart business to support those who feed you. This is a dynamic that is integral to the success of our biological, social and financial systems. Giving back; We as a community would not only be remiss, we would further degrade the long term financial stability of yachats by reducing income streams when business fold.

Linda Hetzler
Drift Inn

Ona Restaurant

On March 20, I decided it would be best for the business and my staff to close both Ona and Heceta Lighthouse B&B. The only reason I had any hope that this may be a feasible move was the PPP. I have kept a very close eye on the movement and I have tried to be an advocate for my peers by offering explanations on how it will work and how people can apply throughout the weeks of the ever changing waves of information. To date, I have filed with two separate banks to see which one will produce something first. I actually changed banks from Columbia to Oregon Coast Bank on Friday because Columbia completely let me down with their process and lack of knowledge with their products.

So this is where I am today. As of March 20, I continued to pay my employees through the 24th as their schedules were written, including tips. And today I have to decide whether I am going to pay them March 25- April 10. I have made up two payrolls for both of my businesses equal to around 40k, and I have no revenue or the loan to back them up. Why am I even considering? All of my employees have been hanging on through the winter to get to Spring Break. It's the great collective "exhale" we can do until we hold our breath again until late June. Spring Break didn't happen and my employees are seeing little or no UI benefits. Because UI works off of last quarters wages, their benefits will be super, non-living wage low and the \$600 a week kicker is nowhere in sight. This year I didn't close November- January because my staff didn't want to quit working for three months. It was hard on all of us.

And as an employer, I am not seeing any assistance for covering my personal expenses. On paper, it looks like I made more than 100k last year, most of which I reinvested in my business, so I will not see a stimulus check and I don't qualify for UI benefits. We are stuck. Even with the PPP, if this goes further into summer than mid-July, my financial outlook is going to get really bleak.

I have a big decision to make today.....

Michelle Korgan

Chef/ Owner

Presbyterian Church

Over the last several weeks, I have had the opportunity to speak with nearly 200 local employees who have suffered a job loss due to the Covid-19 pandemic. Many have expressed frustration with the unemployment insurance system, describing a web page that is overwhelmed, and crashing. Their attempts to file online have not been anymore successful, with hours spent on the phone, constant busy signals.

Consequently, many have yet to receive an unemployment check. Many of those that have, were already living paycheck to paycheck and struggling to make ends meet. Their UI checks are not enough to make car payments, rent, utilities, buy groceries, and there is no expectation that the government "stimulus" checks will arrive any time soon.

As the weeks go on there is a growing sense of desperation and an increased demand at the food pantry as well.

More troubling however are my conversations with many local business owners who report many of the same concerns with the SBA as employees are reporting with unemployment Insurance. The system is overwhelmed, the rules and guidelines changing, lenders are confused, websites are crashing. Many are being told that it will be weeks or months before money is available, if there is enough money to go around.

These business owners still have obligations to meet. Rent and mortgage payments, utilities, insurance, ongoing maintenance costs...

Many have privately confessed to me a very real fear that they may never reopen.

These small businesses, particularly our restaurants, are very much the heart and soul of Yachats, and one of the reasons tourists come to spend their money here. We can not afford to lose even one of them. They are our biggest employers. Displaced workers need a job to come back to. Perhaps

more importantly, Yachats needs the tax revenue generated by these business to pay for our water and sewer infrastructure.

We need the jobs, we need the tourists, we need the money. We need to maintain the heart and soul that makes Yachats, Yachats.

These are extraordinary times, and it will take extraordinary actions to survive. Thankfully, Yachats is in a unique position to help, at least with those businesses that have paid food and beverage taxes.

Robert Barrett, Pastor
Presbyterian Church