



ROBERT WITTKE

STATE REPRESENTATIVE • 62nd ASSEMBLY DISTRICT

TESTIMONY: SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND REVENUE
January 11, 2022

Chairman Kooyenga and Members,

Thank you for holding a public hearing on **Senate Bill 690 (SB 690)**. SB 690 would allow an income and franchise tax exemption for those restaurant owner/operators who received a Restaurant Revitalization Fund grant (RRF) similar to the changes we made earlier this year for those businesses who took a PPP loan under the federal "CARES Act". The federal government has adopted the same treatment for the RRF grants as they allowed for PPP loans. Currently, Wisconsin taxes the RRF grants as emergency lifelines. SB 690 is a bill to conform Wisconsin law to federal tax law in the treatment of these grants.

Members, you will hear from restaurant owners today who will share with you the struggle they've endured to make ends meet over the past twenty months.

You may recall that the Restaurant Revitalization Fund grants (RRF) helped cover the basics of running a business: payroll; mortgages; rent payments; utilities; maintenance expenses; supplies including food and beverage expenses. Now too many of our friends in the restaurant industry face challenges staffing their operation as well.

As Wisconsin continues to improve economically, let's not stand on the sidelines while our small business owners – specifically restaurant owners – succumb to ruin.

Thank you again for holding this public hearing on SB 690.

January 11, 2022



TO: Senate Committee on Financial Institutions and Revenue
Senator Dale Kooyenga, Chair

FR: Tamara and Tony LoPlpero, owners, The Maple Table, Racine, Wisconsin

RE: Written Testimony in favor of SB 690 – an income and franchise tax exemption
for restaurant revitalization
grants

The federal Restaurant Revitalization Fund (RRF) grant was a lifeline for our restaurant. These funds helped us stay in business, retain our employees and purchase supplies.

We were surprised to learn that while RRF grants are treated as non-taxable income by the federal government, but that the State of Wisconsin taxes these emergency lifelines.

Paying taxes on a grant that helped us stay in business would send our restaurant's (and many others) recovery backwards.

Like all other independent restaurants, we were forced to close our dining rooms and lay off staff in March 2020. It has taken a long time to build back our customers and regain our staff. Just as we are getting back on our feet, new COVID variants arrive and are keeping customers at home again, this time voluntarily.

Staffing shortages and food price increases have made it very hard to be profitable in the restaurant business. Adding unexpected tax payments will make it even harder.

Please support SB 690 and help restaurant owners like us recover.



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January 11, 2022

TO: Senate Committee on Financial Institutions and Revenue
Senator Dale Kooyenga, Chair

RE: Testimony in favor of SB 690 – an income and franchise tax exemption for restaurant revitalization grants

Good morning Chairman Kooyenga and members of the Committee. My name is Kristine Hillmer and I am president and CEO of the Wisconsin Restaurant Association.

The Wisconsin Restaurant Association (WRA) represents over 7,000 restaurant locations statewide. Our organization represents all segments of the restaurant and hospitality industry; our membership includes food establishments of all types and sizes, such as seasonal drive-ins, supper clubs, diners, bars, locally owned franchisees, fine-dining and hotels/resorts. Over 75 percent of our membership are independent restaurants. Regardless of ownership type, all restaurants are the cornerstones of their neighborhoods and communities. Restaurants not only provide great food, drink and hospitality, they support schools, teams, charities and churches with fundraising and donations. They provide meeting places to celebrate, mourn and organize, or just provide a safe, tasty meal for a busy family.

I am sure you all know the toll the COVID-19 pandemic has taken on the entire hospitality and tourism industry. At the beginning of summer, we all felt there was a light at the end of the tunnel. Customer demand was roaring back and restaurants were feeling good about getting some normalcy back for their employees and customers.

Unfortunately, we are now seeing our industry's recovery go into reverse. As you can see by the handouts attached to my testimony, restaurant sales were up slightly at the end of summer, compared to July; but in inflation adjusted terms, our sales were actually down. The delta variant has impacted consumer behavior and folks are dining out less. Adding to the reverse in recovery are other factors like employment and input costs. Like all employers, we are short skilled workers, which limit the hours a restaurant can be open. Wholesale prices are up by over 11 percent overall and in some categories have increased by as much as 50 percent or more. Some of our members report they cannot even find some products like straws and take out containers, let alone the cod they need for their weekly fish fry's.

Our industry is made up of entrepreneurs who are resilient and they are making changes to their business models in order to adapt and survive. Unfortunately, many of the problematic issues I just described are not caused by business decisions made by these entrepreneurs; they are the result of the pandemic and decisions made by government officials that have created challenges hard to overcome. That is why we are here today to ask for your help.

The Wisconsin Restaurant Association and the National Restaurant Association advocated very hard to get the Restaurant Revitalization Fund (RRF) included in the American Rescue Plan Act (ARPA).

The RRF provided \$28.6 billion for grants equal to the pandemic-related revenue loss of an eligible restaurant business (minus any PPP loans taken). Restaurant businesses of 1-20 locations were eligible – which directed the funds at small independent and franchisee restaurant owners and ownership groups. While \$28.6 billion sounds large, only one-third of the restaurants who qualified for relief received funds,

leaving over \$40 billion in unfunded applications. At the federal level we are working hard to have the fund replenished as soon as possible to meet this need.

In Wisconsin, 5,871 restaurant businesses applied for just under \$995,000,000 in RRF grants. Of those, 2,095 restaurants were funded for just under \$279,303,000.

Congress determined that RRF grant proceeds are excluded from gross income for federal income tax purposes and that otherwise deductible expenses paid directly or indirectly with such grants would be deductible. This is the income tax treatment provided for recipients of Paycheck Protection Program (PPP) funds. Like the PPP program, only certain expenses are eligible to be paid for the RRF funds.

Just as the Wisconsin Legislature approved earlier this year for PPP loans, SB 690 would adopt the federal tax treatment of RRF grant proceeds. What does this mean revenue wise? If Congress does not replenish the RRF, then \$280 M in Wisconsin tax revenue would be treated the same as PPP funds. If Congress does replenish the RRF, then Wisconsin would treat nearly \$1B in tax revenue the same as PPP funds.

Yes, the restaurant industry is beginning its long journey back. We estimate that we lost 10-15 percent of restaurants to permanent closure. We also know that we have many restaurants who are still on the verge of not surviving the devastating economic effects of the pandemic. They took on huge debt in 2020, trying to stay in business and retain their team members. Many had a busy holiday season, but winter is here in full force, and many still do not have the cash reserves to survive the inevitable slowdown of customer traffic and sales. Many restaurant economists are predicting that during winter, consumers will return to pandemic-like hibernation, which will further reduce seasonal winter customer counts. **Those restaurants that receive RRF grants need the ability to take advantage of the additional tax deductibility to help them stay in business for the long run and emerge stronger this spring.**

With me today to tell their story about the RRF grants and how this bill will help them is

- Danielle Baerwald, Erv's Mug, Oak Creek
- Keith Trafton, Bartolotta Restaurant Group, Milwaukee

Written testimony submitted by: Tony and Tamara LoPipero, The Maple Table, Racine

COVID-19 Restaurant Impact Survey – December 2021

Wisconsin

Restaurant Business Conditions

- Although sales improved from the early months of the pandemic, business conditions remain challenging for many Wisconsin restaurants. Overall, 75% of restaurant operators say their total sales volume in October 2021 was higher than it was in October 2020. Only 11% of operators reported a same-store sales decline between October 2020 and October 2021.
- However, when compared with October 2019 pre-pandemic levels, many Wisconsin operators say their sales were lower in October 2021. 45% of operators say their sales volume in October 2021 was lower than it was in October 2019. Only 37% reported higher sales compared to October 2019.
- **Business conditions deteriorated in recent months, according to many Wisconsin operators. 46% of operators say their restaurant experienced a decline in customer demand for indoor on-premises dining during the last 3 months.**
- Looking ahead to 2022, many restaurant operators do not expect a return to pre-pandemic sales levels. 30% of operators expect their 2022 sales volume will remain below 2019 levels. 49% of operators expect their 2022 sales volume will be above 2019 levels.
- **Looking further down the road, 17% of operators think it will be 7-12 months before business conditions return to normal for their restaurant; 34% think it will be more than a year. An additional 17% of operators say business conditions will never return to normal for their restaurant.**

Restaurant Jobs

- Although the industry added back many of the jobs lost during the pandemic, a majority of restaurants remain understaffed. 78% of Wisconsin operators say their restaurant currently does not have enough employees to support its existing customer demand.
- Among restaurants that are currently understaffed, 77% of operators say their restaurant is more than 10% below necessary staffing levels. 29% say they are more than 20% below necessary staffing levels.

Costs Are Up – Profitability is Down

- Restaurants are being impacted by disruptions in the supply chain. 100% of operators say their restaurant experienced supply delays or shortages of key food or beverage items during the past 3 months.
- 93% of operators say their total food costs (as a percent of sales) are higher than they were prior to the COVID-19 outbreak. Only 1% say their food costs make up a smaller proportion of sales.
- 71% of operators say their total labor costs (as a percent of sales) are higher than they were prior to the COVID-19 outbreak. Only 13% of operators say their labor costs declined as a percent of sales.
- 69% of operators say their total occupancy costs are higher than they were prior to the COVID-19 outbreak. Only 1% say their total occupancy costs are lower.
- **71% of operators say their profit margin is lower than it was prior to the COVID-19 outbreak. Only 11% of operators say their profit margin is higher.**
- Most operators do not expect their profitability to improve in 2022. Only 26% of operators think their restaurant will be more profitable in 2022 than it was in 2021. 30% expect to be less profitable in 2022.



CHALLENGES FOR RESTAURANTS CONTINUE TO PILE ON

While things are moving in a positive direction compared to the shutdowns and restrictions in 2020, **restaurants are still experiencing many challenges.**

Restaurant recovery has started **moving in reverse** because consumers changed their behavior due to the delta variant.

Restaurant sales were up slightly in September, but in inflation-adjusted terms, eating and drinking place sales were **down from July levels.**

Restaurants are still nearly 1 million jobs, **or about 8%**, below pre-pandemic levels, which is double national employment levels.

90,000 restaurants are closed permanently or long-term.

There are **177,000 restaurants waiting** to find out if Congress will replenish the RRF. Those restaurants still aren't on solid financial ground and without the RRF, would see **many of them close** if people continue to change their dining habits as we move into the colder months.

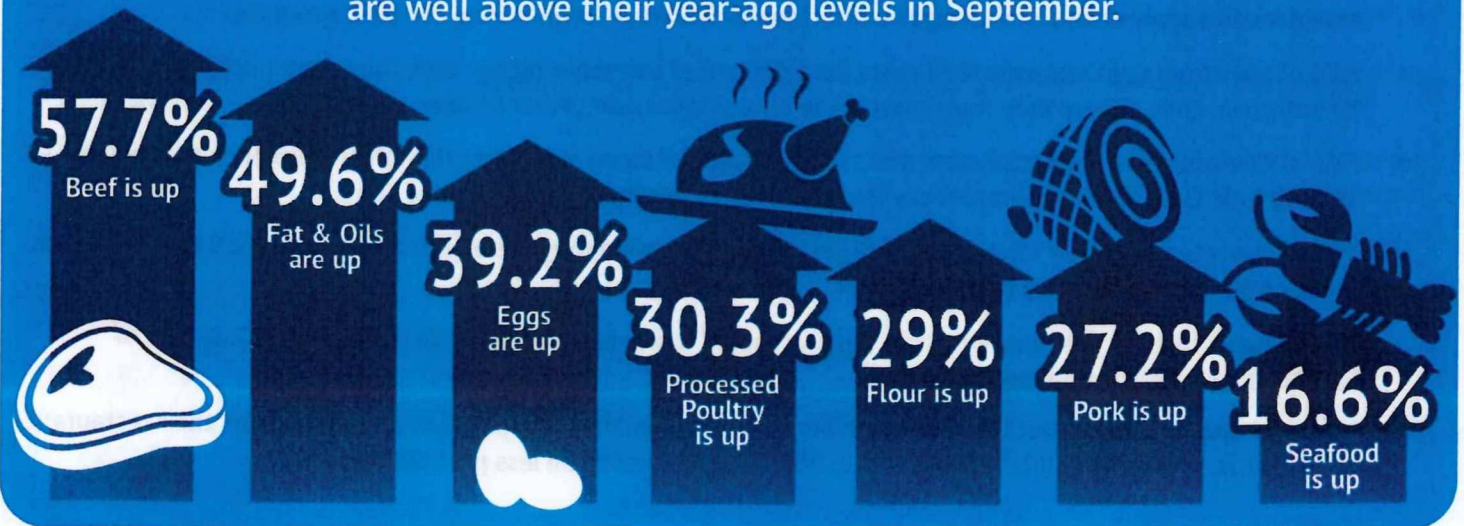


According to a survey by Alignable, **51% of small business restaurant owners** said they couldn't cover their September rent.

Menu prices up 5.3% in last 12 months in the Midwest between September 2020 and September 2021.

Wholesale food prices increased sharply in September, **posting the highest 12-month increase** since 1980.

Several of the major commodities in the wholesale food price index are well above their year-ago levels in September.



The Wisconsin Restaurant Association and the National Restaurant Association continue to tell the restaurant story, underscoring the need to provide support for restaurants.

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