

Potential Government Relief for Hospitality Industry ? Including Franchised Businesses

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Seemingly overnight, flights and hotels emptied, and state and local governments began ordering restaurants, gyms, bars, and other “non-essential” businesses to close or to significantly curtail operations. Unemployment skyrocketed, and businesses began calling out for relief.

In response, the government has proposed multiple initiatives to help stabilize businesses hit hard by current events, especially those in the hospitality industry, many of which are also franchises. As America continues to grapple with how to best deal with the fallout from the COVID-19 outbreak, various trade associations and lobbying groups have been advocating for the industries they represent and making their voices heard in Washington D.C. The International Franchise Association, a non-profit trade association of franchisors, franchisees, and suppliers, has called on Congress to create a \$300 billion fund to provide liquidity to prop up franchises across the country as they continue to deal with the pandemic.^[3] Airlines for America, a lobbying group representing major North American airlines, has requested grants, loans and tax relief amounting up to \$50 billion in relief for airlines.^[4] The U.S. hotel industry has requested a \$150 billion bailout from President Trump.

In response to mounting requests for relief and pressure to act, the Treasury Department recently released its third phase in stimulus packages, a \$1 trillion relief proposal to be enacted by Congress.^[5] This third phase of stimulus would include direct, targeted relief for airlines and other severely impacted industries.

Specifically, under the Treasury Department’s current proposal, the airline industry would receive a \$58 billion bailout in the form of secured loans amounting to \$50 billion to U.S. passenger air carriers and \$8 billion to U.S. cargo air carriers. Interest rates and other lending terms will be set by the Treasury Department. As conditions to the loans, airlines (a) would be limited on increasing executive compensation for the term of the loan and (b) would need to vow to continue service.

Additional funding under the proposal of \$150 billion would be used to provide secured lending or loan guarantees to certain industries and businesses experiencing severe financial difficulties due to the outbreak. Currently, the guidelines are unclear regarding who would qualify for relief, but some of the most vocal industries calling for intervention include hotels, casinos, cruise lines and restaurants. For the companies receiving funding under these bailouts (including the \$58 billion bailout to airlines), the U.S. government may reserve the right to take equity interests in such companies in the form of warrants, stock options, or common or preferred stock, among other forms.

As a note for employers with less than 500 employees, the Treasury Department’s proposal also provides for the funding of \$300 billion for small business interruption loans. Such loans would be used to fund payroll and utility costs, with some in Congress suggesting those who use the funding for anything other than payroll and utilities costs would be penalized. Loan amounts would be limited to the lesser of (a) the full amount of 6 weeks of payroll or (b) \$1,540 per week per

employee. The U.S. government would guarantee 100% of any such qualifying loan. As part of the eligibility requirements for these loans, employers would have to continue to pay all of their workers for at least a period of eight weeks from the date of the loan.

With federal funding and relief still in the proposal phase, some executives and franchise systems have taken efforts into their own hands. For instance, some restaurant-industry activists are working to support distressed restaurants through the Dining Bond Initiative. Under this initiative, customers can purchase a gift card to a restaurant at a discount to the face value of the card and then use the full value of the card within a one- to two-month period. Initiatives like this would help provide funding for immediate needs, such as covering payroll or rent.

Franchisors, in response to both pleas and demands from franchisees, have also begun taking unilateral action to try to ease the strain on their franchisees' businesses. Some franchisors such as Subway, have offered to help by temporarily reducing or deferring the royalty payments owed by the franchisees. Others, like McDonald's, are considering providing financial aid to their franchisees in the form of rent deferrals.

Other relief measures to be aware of include:

1. [Small Business Administration Economic Injury Disaster Loans](#) – For [designated states and territories](#), the U.S. Small Business Administration (SBA) is offering low-interest rate loans to small businesses to help cover business expenses (3.75% for business and 2.75% for nonprofit organizations; long-term repayment plans up to a maximum of 30 years).
2. [Tax Payment Deferral](#) – Certain individuals and businesses may defer tax payments for 90 days.

As the hospitality sector waits for specific terms of the potential relief, franchisors should:

- Provide franchisees access and links to resources, including those listed above (employment, governmental relief programs, etc.).
- Communicate with franchisees. Stay up to date on local and national COVID-19 policies and push out critical changes to franchisees as soon as possible. Share best practices under the ever-changing circumstances, with an emphasis on record keeping.
- Pay attention to supply chains. Check-in with vendors. Begin considering alternatives for affected channels.
- Review brand standard language in Franchise Agreements. Now is not the time to take advantage of a crisis, but franchisors must maintain health and safety standards and act where there is a significant brand standards deviation. Maintain records of franchisee actions and conduct.
- Consider deferring fees, in particular, royalty fees, and consider a waiver of fees at a later date. Also consider inventory repurchase, longer credit terms, and rent abatement, where applicable.
- Review force majeure clauses, including, any notice deadline requirements.
- Work with franchisees on creative solutions.

[1] <https://thehill.com/business-a-lobbying/business-a-lobbying/488472-franchise-group-calls-for-300b-in-assistance>

[2] <https://thehill.com/business-a-lobbying/business-a-lobbying/487820-airline-industry-calls-for-25b-in-assistance-for>

[3] <https://thehill.com/business-a-lobbying/business-a-lobbying/488472-franchise-group-calls-for-300b-in-assistance>

[4] <https://thehill.com/business-a-lobbying/business-a-lobbying/487820-airline-industry-calls-for-25b-in-assistance-for>

[5] (Phase 1—extra funding to the certain governmental programs, funding to produce coronavirus tests, subsidizing loans to small business through the SBA; Phase 2—[mandating paid sick and family leave with corresponding tax credits](#), increasing unemployment insurance benefits).