Committee on Small Business

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###### **THE COUNCIL OF THE CITY OF NEW YORK**

**Committee Report of the Governmental Affairs Division**

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**COMMITTEE ON SMALL BUSINESS**

**Hon. Mark Gjonaj, Chair**

##### September 23, 2020

**PROPOSED INT. 2083-A** By Council Members Rivera, the Speaker (Council Member Johnson), Kallos, Rosenthal, Chin, and Powers

**TITLE:** To amend the administrative code of the city of New York, in relation to extending temporary personal guaranty protection provisions for commercial tenants impacted by COVID-19

**ADMINISTRATIVE CODE:** Amends § 22-1005

1. **INTRODUCTION**

On September 23, 2020, the Committee on Small Business, chaired by Council Member Mark Gjonaj, will hold a remote vote on Proposed Int. No. 2083-A, by Council Member Rivera, a Local Law to amend the administrative code of the city of New York, in relation to extending temporary personal guaranty protection provisions for commercial tenants impacted by COVID-19.

The Committee previously heard testimony on Proposed Int. No. 2083-A during a hearing on September 14, 2020. Those invited to testify at the hearing included representatives of the Department of Small Business Services (SBS), small business advocates, chambers of commerce, Business Improvement Districts (BIDs) and other organizations.

1. **BACKGROUND**

In late December 2019, a new virus, SARS-CoV-2, was detected in Wuhan, China and by January 30, 2020, the World Health Organization (WHO) declared that COVID-19, the disease caused by the SARS-CoV-2 virus, was now a Public Health Emergency of International Concern (PHEIC).[[1]](#footnote-1) As of September 22, 2020, COVID-19 has infected over 31.5 million people across 213 countries and territories, and has killed almost 970,000 people.[[2]](#footnote-2) In the United States alone, there have been nearly seven million infections and over 200,000 deaths.[[3]](#footnote-3) To date, New York has had over 450,000 infections and over 33,000 deaths, many of which took place in New York City.[[4]](#footnote-4)

The progressive nature by which the virus spreads has caused governments across the globe to shutdown businesses, schools, religious and cultural institutions, and mandate various levels of social isolation. While this has seemingly helped to limit the spread of the virus, stay-at-home orders have had a catastrophic impact on economic markets, particularly small businesses that thrive from regular contact with their community and neighbors.

**1. Limitations on City Businesses in Response to COVID-19**

In New York, Governor Andrew Cuomo issued a series of executive orders to help stop the spread of SARS-CoV-2. Executive Order 202.3 prohibited all on-premises service by restaurants and bars, and ordered gyms, fitness centers, and movie theaters to cease operations entirely as of March 16, 2020.[[5]](#footnote-5) Drive-in theaters were allowed to open as of May 15, 2020,[[6]](#footnote-6) although indoor, movie theater service remains prohibited. When New York City entered Phase Two of the Governor’s reopening plan on June 22, 2020, restaurants and bars were allowed to begin outdoor dining, however they have been unable to host any indoor dining until September 30, 2020, at which point the Governor has announced they can operate at 25% capacity indoors.[[7]](#footnote-7) On August 17, 2020, the Governor announced that gyms and fitness centers could reopen at 33% indoor occupancy across the state, starting August 24, 2020, subject to the assent of local elected officials.[[8]](#footnote-8) However, Mayor de Blasio chose to delay the opening of gyms and fitness centers until September 2, 2020.[[9]](#footnote-9) Thus, by September 30, 2020, restaurants and bars, gyms, fitness centers and movie theaters will have been either prohibited from serving customers indoors, or subject to significant indoor occupancy restrictions, for over six months.

Executive Order 202.7, issued by the Governor, restricted the operation of personal care services.[[10]](#footnote-10) Barbershops, hair salons, nail salons, tattoo or piercing parlors, and related personal care services were required to close to the public as of March 21, 2020.[[11]](#footnote-11) Barbershops and hair salons were then allowed to re-open at 50% capacity on June 22, 2020, when NYC entered Phase Two of the Governor’s reopening plan.[[12]](#footnote-12) Nail salons, tattoo parlors, piercing parlors, and other related personal care services subject to Executive Order 202.7 were allowed to re-open at 50% capacity on July 6, 2020, when NYC entered Phase Three of the Governor’s reopening plan.[[13]](#footnote-13) Thus, by the end of September 2020, these businesses will have been fully closed for over three months and open at half capacity for less than four months.

With the issuance of the Governor’s Executive Order 202.8, which modified Executive Order 202.6, non-essential businesses were closed beginning March 22, 2020.[[14]](#footnote-14) When New York City entered Phase Two on June 22, 2020,[[15]](#footnote-15) many of these non-essential businesses were allowed to reopen at 50% capacity, including retail businesses.[[16]](#footnote-16) As was the case with personal care businesses, non-essential businesses subject to this guidance will have been closed for three months and open at half capacity for only three months as of September 30, 2020.

**2. The Impact on Small Businesses Amid the COVID-19 Crisis**

As businesses were subject to operational restrictions and New Yorkers stayed home to stop the spread of the virus, consumer spending declined in the City. In late March 2020, consumer spending dropped 44 percent year-over-year, according to Mastercard.[[17]](#footnote-17) The Manhattan Chamber of Commerce reported that foot traffic in Manhattan at the end of August was down nearly 40 percent compared to pre-COVID times.[[18]](#footnote-18) According to an August 2020 report by the City Comptroller, small business revenues have dropped 26.4 percent since January, ranking NYC 40th among the 52 largest American cities.[[19]](#footnote-19)

The drastic drop in consumer spending in the City and resulting loss in revenue for businesses has made it difficult for business owners to continue paying rent. The Hospitality Alliance surveyed over 450 restaurants, bars, nightclubs, and event venues in NYC about their rent obligations in July. The resulting report found that approximately 83 percent of respondents did not pay their full rent in July, while around 71 percent of landlords did not waive rent payments for restaurants, bars and nightclubs.[[20]](#footnote-20) The Hospitality Alliance produced another nearly identical survey in August. It found that 87 percent of respondents did not pay their full August rent, up from 83 percent in July, and around 60 percent of landlords still have not waived rent payments during the pandemic.[[21]](#footnote-21) The current outlook for many small businesses is dire as they experience massive revenue declines but must continue paying the same fixed costs, such as rent, as pre-COVID times. Camilla Marcus, the owner of the restaurant west~bourne in Soho wrote in an op-ed about her business’s closure, “Restaurants are universally facing a simple and stark equation: our income has been cut by 75%, but most of our operating costs, including our rent, remain the same. And, there's no end of the tunnel in sight.”[[22]](#footnote-22) Over 300 city restaurateurs have since joined a class action lawsuit against the City and the State over the prohibition on serving customers indoors;[[23]](#footnote-23) the NYC Hospitality Alliance has also threatened a lawsuit.[[24]](#footnote-24) On September 9, 2020, Governor Cuomo announced the indoor dining may resume in NYC beginning September 30, but even then only at 25 percent capacity.[[25]](#footnote-25)

Because of the high cost of rent and the inability to make adequate revenue, restaurant and other small business owners affected by COVID-19-related restrictions on their operations have urged the Council to extend Local Law 55 of 2020 (Int. No. 1932-A), which protects certain COVID-19-impacted commercial tenants from personal liability when a default of other such event occurs between March 7, 2020 and September 30, 2020. Personal liability provisions in commercial leases may hold a business owner personally responsible if they are unable to pay rent by threatening the seizure of their personal assets or property.[[26]](#footnote-26) In order to prevent this, an owner must turn in the keys to the property, effectively ending their lease. According to one restaurant owner, “Come September 30… if [Local Law 55] doesn’t get extended – [you] might see a massive number of evictions. Evictions will continue to happen at an exponential rate, and I think this will be the specific last straw many restaurateurs are holding onto.”[[27]](#footnote-27) The owner predicted that if Local Law 55 is not extended, it would be “a fatal blow to the restaurant industry.”[[28]](#footnote-28)Another owner predicted that many restaurants that have not already closed would “giv[e] up, thinking there’s no real help at all.”[[29]](#footnote-29)

In addition to paying rent, small businesses have had the added burden of locating and purchasing personal protective equipment (PPE). To both ensure the safety of their employees and create a safe environment for consumers to shop, small business owners have purchased stockpiles of PPE, plexiglass shields, and other safety devices. Restaurants, retail stores, grocery stores, and other establishments have had to retrofit their spaces to abide by the State’s reopening guidelines.[[30]](#footnote-30) A recent report by McKinsey concluded that small grocery stores could spend up to 1% of their revenue in cleaning products and possible additional labor costs.[[31]](#footnote-31) According to Dr. Susan Bailey, president of the American Medical Association, the dramatic increase in need for PPE will continue to be a problem for "churches, schools, businesses, everyone that's trying to reopen needs PPE, and we're all competing for the same small supply."[[32]](#footnote-32) To assist small businesses in this effort, the City has been distributing free face coverings for reopening businesses of 100 employees or less.[[33]](#footnote-33) Additionally, the City has created an online, searchable directory of PPE suppliers.[[34]](#footnote-34)

Thousands of small businesses have closed in New York due to their inability to continue paying their fixed costs such as rent and the new safety COVID-related equipment they must purchase. In his May 22nd press conference, Governor Cuomo reported that over 100,000 small businesses have closed across the State since the pandemic began.[[35]](#footnote-35) According to the City Comptroller report, at least 2,800 small businesses closed permanently between March 1st and July 10th.[[36]](#footnote-36) Partnership for New York City predicts that as many as a third of the 230,000 small businesses in New York City may never reopen.[[37]](#footnote-37)

As small businesses have shut their doors, the livelihoods they generate for both employees and business owners have disappeared. The unemployment rate in the City, at 16 percent as of August 2020,[[38]](#footnote-38) was over 12 percentage points higher than the previous August,[[39]](#footnote-39) and may continue to be high even after the pandemic subsides as thousands of small businesses might permanently close. Labor statistics from the New York State Department of Labor indicate that employment in the “Food Services and Drinking Places” industries are down 45.3 percent in August 2020 as compared to August 2019,[[40]](#footnote-40) and employment in “Full Service Restaurants” is down 55.7 percent.[[41]](#footnote-41) Many “Retail Trade” businesses are also down. For example, employment in “Clothing and Clothing Accessories Stores” is down 43.6 percent,[[42]](#footnote-42) with “Clothing Stores” specifically down 54.5 percent.[[43]](#footnote-43) Employment in “Furniture and Home Furnishings Stores” is down 32.7 percent,[[44]](#footnote-44) and in “Sport. Goods, Hobby, Book, and Music Stores,” it is down 22.9 percent.[[45]](#footnote-45) Employment in the “Personal and Laundry Services” subsector, which includes barbershops, hair salons, and the other personal care businesses, is down 35 percent.[[46]](#footnote-46)

A May 2020 report from the New York City Independent Budget Office projected that a total of 115,000 leisure and hospitality jobs would be lost by October 2020,[[47]](#footnote-47) and that even if distancing restrictions are relaxed, industries with “strong ties to tourism,” such as hospitality, would continue to lose jobs due to a decline in foreign tourists.[[48]](#footnote-48) A Partnership for New York City report from July 2020 classifies an estimated 679,000 accommodation and food service jobs as vulnerable to loss – the most of any sector in the city – 58 percent coming from small businesses that employ fewer than 100 people.[[49]](#footnote-49) The closure of City businesses will leave households “struggling to feed their families and pay rent,” [[50]](#footnote-50) and the impact of job loss in the City may disproportionately affect Black, Hispanic and Asian residents. The report estimates that 40-50 percent of jobs held by people of color are at risk of loss,[[51]](#footnote-51) as opposed to 30 percent for white residents.[[52]](#footnote-52) The survival of the small business economy is essential to ensure the City can have a strong, equitable economic recovery from the financial collapse caused by the pandemic.

**3. The Need for Greater Federal Aid for Small Businesses**

In response to the devastation caused by COVID-19, the federal government passed the Coronavirus, Aid, Relief, and Economic Security Act (CARES ACT), which included support for small businesses. The CARES Act allocated about $349 billion in federal funds for the Paycheck Protection Program (PPP), with an additional $322 billion authorized by Congress in late April.[[53]](#footnote-53) The PPP provided various types of employers, including small businesses, nonprofits, self-employed individuals and independent contractors, access to loans to cover payroll costs of up to $100,000 per employee, rent and mortgage interest prior to February 15, 2020, and utilities. Loans were calculated per employer or per location, and may be as high as 2.5 times the average monthly payroll for the one-year period before the loan application was submitted, to a cap of $10 million.[[54]](#footnote-54)

The Paycheck Protection Program was intended to boost small businesses by helping them retain staff, therefore decreasing job losses.[[55]](#footnote-55) While New York was the epicenter of virus’ outbreak in the United States, it received disproportionately less money from the PPP than did other states. Just over 74 percent of New York’s eligible payroll was covered by loans from the PPP, ranking 44th of the 50 states. In contrast, states that did not experience nearly the same economic devastation as New York, such as Utah and Hawaii, had nearly 94 percent of their eligible payroll covered by the PPP.[[56]](#footnote-56)

While many small businesses in New York City did receive federal aid, small businesses are still in dire need of financial relief from the federal government. The PPP closed to new applications in August, and if Congress does not allocate further aid for small businesses, their past efforts to boost the small business economy may end up delaying mass closures rather than preventing them.[[57]](#footnote-57) According to John Lettieri, president and chief executive of the Economic Innovation Group, the PPP “was a mechanism to buy time. It was never the long-term solution.”[[58]](#footnote-58) As New York enters the fall, colder weather will bring new challenges, as outdoor dining and other weather-dependent adaptations small business owners implemented to increase business will become less reliable. Additionally, the winter could bring a surge in new cases, which could have the same effect as occurred when the virus first hit New York of decreasing small businesses revenue.[[59]](#footnote-59) Accordingly, federal aid will be necessary to assuage the financial anxieties of small business owners.

1. **LEGISLATIVE ANALYSIS**

**Proposed Int. No. 2083-A, A Local Law to amend the administrative code of the city of New York, in relation to extending temporary personal guaranty protection provisions for commercial tenants impacted by COVID-19**

Section one of this bill sets forth the Council’s legislative findings and intent.[[60]](#footnote-60) Section two of the bill would amend Local Law 55 of 2020, which temporarily prohibits the enforcement of personal liability provisions in commercial leases or rental agreements involving certain COVID-19 impacted tenants, to extend this protection from September 30, 2020 to March 31, 2021. Local Law 55 applies to businesses that have been impacted by mandated closures and service limitations in the Governor's Executive Orders, as extended. Specifically, it covers (1) businesses required to stop serving food or beverages on-premises or to cease operations altogether under Executive Order Number 202.3 issued by the Governor on March 16, 2020; (2) non-essential retail businesses subject to in-person limitations under guidance issued by the New York State Department of Economic Development pursuant to Executive Order Number 202.6 issued by the Governor on March 18, 2020; and (3) businesses required to close to the public under Executive Order Number 202.7 issued by the Governor on March 19, 2020. Threatening to or attempting to enforce a personal liability provision is also considered an illegal form of commercial tenant harassment under Local Law 55.

Additionally, Proposed Int. No. 2083-A would require SBS, or another agency or office designated by the mayor to conduct an information and outreach campaign in order to educate commercial tenants affected by this legislation about its protections and clarifies the Council’s intent that the personal liability protections in Local Law 55 apply regardless of whether a personal liability provision appears within a commercial lease or other rental agreement or within a separate agreement relating to the underlying property.

Proposed Int. No. 2083-A

By Council Members Rivera, the Speaker (Council Member Johnson), Kallos, Rosenthal, Chin and Powers

..Title

A Local Law to amend the administrative code of the city of New York, in relation to extending temporary personal guaranty protection provisions for commercial tenants impacted by COVID-19

..Body

Be it enacted by the Council as follows:

Section 1. Declaration of legislative intent and findings. a. The council finds and declares that:

1. The city is in the midst of a local, state, and federally declared disaster emergency due to a global pandemic. While the numbers increase daily, the 2019 novel coronavirus, or COVID-19, has killed over 900,000 people worldwide, over 200,000 people in the United States, and about 33,000 people in New York state. Within the city itself, about 243,000 people have been infected with the disease and about 24,000 people have likely died because of it.

2. Governments around the world, the country, and the state, including the city, have taken drastic measures to limit the spread of COVID-19. While many of these measures appear to have helped slow the progress of the disease, many have also contributed to a catastrophic impact on the city’s economic and social livelihood.

3. For example, as part of the effort to stop the spread of COVID-19, the governor in March 2020 issued executive order numbers 202.3, 202.6, and 202.7. These orders, as subsequently amended and extended through other executive orders, and interpreted through guidance issued by the New York state departments of economic development and health, effectively prohibited restaurants, bars, gyms, fitness centers, movie theaters, non-essential retail stores, barbershops, hair salons, nail salons, tattoo or piercing parlors, and related personal care services from operating with any indoor occupancy.

4. These operational limitations, while necessary to combat the spread of a global pandemic, have contributed to the severe economic damage suffered by the city. For example, the most recently available labor statistics from the New York state department of labor relating to the businesses subject to these orders indicate that:

(a) The city lost 151,100 jobs in the food services and drinking places subsector from February 2020 to July 2020, leaving employment in that subsector down 48.9% in July 2020 compared to July 2019. This includes a loss of 94,000 jobs in the full service restaurants industry between February 2020 and July 2020, which left employment in that industry down 57.7% in July 2020 compared to July 2019.

(b) Within the retail trade sector, the city lost about 34,700 jobs from industries subject to the above-described executive orders; this includes a combined loss of 29,300 jobs in the clothing stores industry, the furniture and home furnishings stores subsector, and the sporting goods, hobby, book, and music stores subsector between February 2020 and July 2020, which left employment in those industries and subsectors down 49.5%, 38.5%, and 24.2%, respectively, in July 2020 compared to July 2019.

(c) Within the personal and laundry services subsector, which includes barbershops, hair salons, and other personal care businesses, the city lost 22,800 jobs, leaving employment in that subsector down 34.4% in July 2020 compared to July 2019.

5. While businesses may be willing to weather the economic hardships imposed upon them by governmental measures to combat COVID-19 by either staying open or temporarily closing and later reopening, individual owners and other natural persons who personally guarantee the financial obligations of these businesses face a different and more substantial risk than losing revenue and profit. They risk losing their personal assets, including their possessions and even their own homes, transforming a business loss into a devastating personal loss. This is particularly a risk for small businesses, as the scale of the financial obligations of larger businesses generally renders having a natural person guarantee those obligations impracticable.

6. If these individual owners and natural persons are forced to close their businesses permanently now or to suffer grave personal economic losses like the loss of a home, the economic and social damage caused to the city will be greatly exacerbated and will be significantly worse than if these businesses are able to temporarily close and return or, failing that, to close later, gradually, and not all at once.

7. For the foregoing reasons, the council passed, and the mayor signed, local law number 55 for the year 2020, which provides temporary protections to natural persons who personally guarantee the financial obligations of businesses subject to the substantial occupancy limitations imposed by the above-described executive orders issued by the governor. These protections are, however, due to expire on September 30, 2020.

8. As of September 30, 2020, these businesses will have been either prohibited from operating with any indoor occupancy at all, or subject to significant indoor occupancy restrictions, for over six months, and it is likely that such significant indoor occupancy restrictions will continue for the foreseeable future as the so-called first wave of the COVID-19 crisis has not yet fully subsided and there is substantial risk of a second wave of the disease beginning in the fall or winter of 2020, particularly as the city enters its normal flu season.

9. Beginning on September 30, 2020, most of the businesses subject to the above-described executive orders will be able to operate with at least minimal indoor occupancy. Extending the duration of the personal liability protections contained within local law number 55 for the year 2020 by six months, as this local law does, is intended to provide these businesses a reasonable recovery period with a duration that is comparable to the period of time that these businesses were forced to close or operate with significant limitations on indoor occupancy and thereby to provide them with an opportunity to not only survive but also to generate sufficient revenues to defray owed financial obligations.

10. As with local law number 55 for the year 2020 before it, this local law does not, nor is it intended to, limit any other lawful remedies that a landlord may be able to seek against a commercial tenant itself, such as bringing suit against that tenant for damages; collecting or offsetting financial obligations by using the revenues, inventory, equipment, or other assets of that tenant; or evicting or declining to renew the lease or rental agreement of that tenant.

11. This local law also modifies the language of local law number 55 for the year 2020 to clarify the council’s intent that its personal liability protections apply regardless of whether a personal liability provision appears within a commercial lease or other rental agreement itself or appears within a separate agreement relating to the same property.

b. For the foregoing reasons, the council finds that it is necessary and appropriate to extend the duration of the personal liability protections in local law number 55 for the year 2020.

§ 2. Section 22-1005 of the administrative code of the city of New York, as added by local law number 55 for the year 2020, is amended to read as follows:

§ 22-1005. Personal liability provisions in commercial leases. A provision in a commercial lease or other rental agreement involving real property located within the city, or relating to such a lease or other rental agreement, that provides for one or more natural persons who are not the tenant under such agreement to become, upon the occurrence of a default or other event, wholly or partially personally liable for payment of rent, utility expenses or taxes owed by the tenant under such agreement, or fees and charges relating to routine building maintenance owed by the tenant under such agreement, shall not be enforceable against such natural persons if the conditions of paragraph 1 and 2 are satisfied:

1. The tenant satisfies the conditions of subparagraph (a), (b) or (c):

(a) The tenant was required to cease serving patrons food or beverage for on-premises consumption or to cease operation under executive order number 202.3 issued by the governor on March 16, 2020;

(b) The tenant was a non-essential retail establishment subject to in-person limitations under guidance issued by the New York state department of economic development pursuant to executive order number 202.6 issued by the governor on March 18, 2020; or

(c) The tenant was required to close to members of the public under executive order number 202.7 issued by the governor on March 19, 2020.

2. The default or other event causing such natural persons to become wholly or partially personally liable for such obligation occurred between March 7, 2020 and [September 30, 2020] March 31, 2021, inclusive.

§ 3. The department of small business services, or another mayoral agency or office designated by the mayor, shall conduct an information and outreach campaign to educate commercial tenants affected by this local law about its protections.

§ 4. This local law takes effect immediately.

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