April 12, 2020

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
Washington, DC 20510

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Chuck Schumer
Democratic Leader
U.S. Senate
Washington, DC 20510

The Honorable Kevin McCarthy
Republican Leader
U.S. House of Representatives
Washington, DC 20510

Dear Speaker Pelosi, Leader McConnell, Leader Schumer & Leader McCarthy:

Congress established the Paycheck Protection Program in the CARES Act as a way to put workers back on payrolls and give small and medium-sized businesses hit by the coronavirus pandemic a lifeline – not as a handout to real estate lenders and investors.

But now the hotel industry wants to transform the Paycheck Protection Program into a Pay-Out to Bankers and Bondholders Program.

As the CARES Act was being negotiated by Congressional leaders, the hotel industry successfully lobbied to expand the PPP so hotels with less than 500 employees – the vast majority of hotels in the US – are each automatically eligible to obtain a loan for up to 250% of monthly payroll. Recipients can have that loan forgiven if employees are retained on payroll – with full pre-COVID pay and benefits – through June 2020.

By the time the CARES Act became law, hotels across the US had laid-off or furloughed 70% of their workforce.1 Millions of hospitality workers are currently unemployed and cannot assume they will be able to keep their employer-sponsored health insurance beyond a few weeks or months.

But instead of taking steps to use the emergency aid in the PPP to put those workers back on payroll, the large hotel corporations are now trying to change the primary purpose of the PPP. Before the ink had even dried on the CARES Act, the AHLA claimed the PPP was “unworkable”2 because its loan limit of 250% of payroll “will not allow a business owner to meet both payroll and debt service obligations beyond an estimated four to eight weeks.” AHLA’s Rogers complained: “Since the measure reduces debt forgiveness with any reduction in payroll, hoteliers would be forced to use the entire loan amount on

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1 Chip Rogers, CNN Interview with Julia Chatterley, 3/30/2020. (Transcribed from recorded video.)
payroll, at the expense of debt service.”³ In other words, the hotels want to use more of the emergency funding to pay lenders and bondholders, not to keep workers on payroll.

More recently, the AHLA wrote to you and proposed additional changes⁴ that would expand the allowable uses for the forgivable PPP loans, further siphoning funds intended for employee retention to other unintended uses. Three of the AHLA proposals, in particular, we believe would be counter-productive to an economic recovery, and contrary to the primary goals of the CARES Act:

1. **Increasing the percentage of forgivable PPP funds that can go to uses other than for payroll.**

   Citing hotel owners’ difficulty in meeting their debt obligations, the AHLA wants half of the money Congress provided for employee retention to instead go to debt service and other uses.

   This would be a backdoor bailout of big banks and financial engineers.

   Hotel owners are real estate investors who generally buy and sell hotels and use debt of various kinds to increase the returns on hotel investments. Hotel owners are predominantly composed of private equity companies, real estate investment trusts, high net worth individuals and sovereign wealth funds. Hotel lenders are generally large money center banks and other large financial institutions.

   In the experience of our members, hotel owners come and go. Foreclosures are not infrequent occurrences. Through it all, hotel workers keep things running seamlessly. It is sound public policy for the CARES Act and the PPP to support their paychecks and benefits. In so doing, millions of families and their communities can be stabilized. But bailing out real estate investors who took out risky loans and the financial engineers who provided them will only kick the can down the road as far as foreclosures and ownership changes go. If owners entered into financial arrangements that meant they could not withstand a two month interruption in business – however unexpected – what makes us think redirecting funds meant for employees to allow them to pay a few months interest on their loans will allow them to survive for the next two years, which is how long most industry analysts are predicting it will take before the industry regains its pre-COVID-19 occupancy levels?

2. **Allowing recipients to use PPP funding to pay millions of dollars in franchise fees to the global hotel brands.**

   Rather than waving franchise fees for struggling small businesses during the crisis, the hotel corporations want to direct a sizeable portion of the PPP loans to themselves, the giant hotel brand companies – who are already sitting on piles of cash even though they have laid-off most of their workers. Marriott, Hilton and Hyatt have healthy balance sheets and more than $4.5 billion in combined cash in their coffers.⁵

3. **Allowing Real Estate Investment Trusts (REITS) to use PPP forgivable loans to pay rent to their own affiliates.**

   Hotel REITs are tax-advantaged vehicles that are required to distribute most of their profits on a quarterly basis to sophisticated institutional investors like Blackrock, State Street, Vanguard and Fidelity. They are not mom-and-pop franchisees.

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⁴ AHLA letter to Pelosi, McConnell, Schumer and McCarthy, April 8, 2020.

Hotel REITs are allowed to have Taxable REIT Subsidiaries which receive taxable income from hotel operations and then pay rent to a different subsidiary of the same REIT, which pays a lower tax rate on rents. So, within a single REIT-owned hotel, one REIT subsidiary pays rent to another REIT subsidiary in order to lower the tax liability of hotel operating income. In proposing that PPP funds be used for “rent paid by a REIT Taxable REIT subsidiary to a hotel owner for the ability to occupy a hotel”\(^6\), the AHLA is hoping you don’t realize that those are related parties. The only reason these different types of subsidiaries exist is to allow REITs to pay lower taxes than other hotel owners. It makes no sense to allow large real estate trusts to use funds meant to help struggling small businesses to pay rent to their own affiliates so those affiliates can distribute dividends to giant mutual fund companies.

It would be one thing to have a debate about whether large hotel owners and their lenders should receive federal aid if those companies actually employed workers. But REITs and other owners do not employ hotel workers, and the giant management companies who do have already laid-off most of their employees and have shown little interest in re-employing them, despite the fact that the PPP currently allows them to do so for 8 weeks at virtually no cost to the employers.

This reluctance to put people back on payroll is all the more distressing in light of the measures the three large US hotel companies took just last month to reward their top executives:

- **Hilton** announced on 3/26/20 that its executive team had taken a 50% pay cut for the duration of crisis. What they didn’t say, is that several weeks before that, Hilton executives had been awarded restricted stock grants and stock options worth $7 million (as of 4/9/20.).\(^7\)

- **Marriott** executives also announced pay cuts for top executives. But in early March, Marriott issued stock compensation worth a combined $8.1 million (as of 4/9/2020) to 11 top executives.\(^8\) As of March 18, Marriott had also decided to go ahead with a planned $155M dividend distribution to shareholders.\(^9\)

- **Hyatt** also issued stock grants to its top executives. They are worth $8 million today and could be worth $36 million if shares regain half their decline from the 52-week high, or as much as $66 million if shares reach their 52-week high during the vesting period.

The companies have also spent lavishly on their own shares in recent years. Marriott, Hilton and Hyatt spent a combined $17.7 billion on share buybacks since 2015,\(^10\) which massively reduced the cash the companies could have used for other purposes, including managing crises such as the Coronavirus pandemic.

Employee retention - not debt service, franchise fees or subsidies for REIT investors – was the primary rationale for the Paycheck Protection Program.

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6 AHLA letter to Pelosi, McConnell, Schumer and McCarthy, April 8, 2020.
The options have an exercise price of $93.33, which makes them worthless until the stock price regains its losses.
9 Marriott Form 8-K press release, 3/18/20:
10 Since 2015, Marriott has spent $10.7B on stock buybacks, Hilton has spent $4b, and Hyatt has spent $3b. Source: Company 10-Ks, 2015 through 2019.
To promote a program of loan forgiveness based on the premise that recipients will use it to retain workers while simultaneously laying-off or furloughing 70% of employees is cynical enough. But then to complain that the loan limits Congress set are too low and that more of the emergency funds should go to pay off lenders, bondholders, franchisors and REIT investors instead of keeping workers on payroll, is beyond the pale.

We urge you to hold true to the principles of the CARES Act and decline appeals from hospitality, real estate or bondholder organizations to bend the purpose of the Paycheck Protection Program to any other than that for which it was intended: putting Americans back on payrolls.

Specifically, we urge you to oppose:

- Any decrease in the proportion of PPP loan amounts that must be used for payroll purposes in order to be forgiven (75% under current SBA Guidelines.)
- Making the payment of franchise fees an allowable use of PPP loans
- Allowing Hotel REITs to use PPP funds to pay rent to their own affiliates

In general, we hope millions of struggling hospitality workers can count on you to ensure that any changes to the Paycheck Protection Program, the CARES Act, or any subsequent emergency funding package, will require employers who receive emergency funding to keep workers on payroll with their pre-crisis health insurance and other benefits.

Sincerely,

D. Taylor
President, UNITE HERE