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Briefing Paper Informational Hearing

Tuesday, May 18, 2021

1:30 p.m. – State Capitol – Room 4203

The Impacts and Implications of the COVID-19 Pandemic on the State's Restaurant Industry

Summary

This hearing is intended to provide an overall understanding of what the future will look like for restaurants in California; how the industry plans to build back better; and how the state can, and should, help this critical industry with an eye on the broader state reopening currently set for June 15th.

Introduction

Few sectors have been battered more by the COVID-19 pandemic than the restaurant industry. Before COVID-19, California employed 1.4 million restaurant workers. By March 2020, the California Restaurant Association (CRA) reported that between 900,000 to 1 million of these workers had been laid off or furloughed. Nationally, the industry lost \$240 billion in sales for 2020. While the full impact of the pandemic remains to be seen, as many as 30% of restaurants in California are estimated to have permanently closed, and the viability of an equivalent share remains uncertain.

Then and Now

The onset of the pandemic in early 2020 was a time of frustration and uncertainty for many, including county health officers, whose duty is to preserve and protect public health. State law grants local health officers broad authority to take action to prevent disease, including orders for isolation and quarantine. They may also declare a local health emergency when necessary. A health officer can also be an important spokesperson. As a physician, the health officer acts as a trusted voice during outbreaks or emergencies and both the media and the public seek their expertise in times of crisis.

Little was known about COVID-19 when it took hold; the state had never before experienced a health crisis of such magnitude. Subsequent decisions to issue regional shelter-in-place orders, combined with

a statewide one, were complicated by different regional approaches to COVID containment and suppression between counties. As the response evolved, counties were learning in real-time.

Today, the COVID landscape has improved dramatically as the statewide positivity rate remains at a record low with significantly fewer hospitalizations and deaths, and, efforts to vaccinate as many people as possible continue to take place. Much of the foundation for the state's current COVID stabilization has been built over time through county health officers and their cross-agency partnerships.

State Action

Over 40,000 restaurants are licensed by the Department of Alcoholic Beverage Control (ABC) to sell alcohol in California. During the early stages of the pandemic, the stay-at-home orders that were aimed at slowing the spread of COVID-19 created significant and lasting hardships for the industry since much of their business and revenue rely on people congregating in one place. To support restaurants in dealing with their economic challenges, ABC issued a number of temporary measures, consistent with public health orders, intended to provide pandemic relief. Generally, among other things, the relief measures temporarily allow restaurants to do the following, subject to various stipulations:

- Obtain approval to expand their premises to certain outdoor areas approved by local jurisdictions;
- Sell alcoholic beverages for consumption off premises in manufacturer prepackaged containers under certain conditions;
- Include alcoholic drinks that are not in manufacturer prepackaged containers with food-to-go orders;
- Sell and deliver alcoholic beverages, as allowed by their license, via pass-through windows or slide-out trays;
- Provide curbside delivery;
- Deliver goods to consumers away from premises free of charge;
- Waive license renewal fees for two-years if certain eligibility criteria are met;
- Return alcohol to manufacturers and wholesalers willing to accept those returns; and,
- Provide additional flexibility related to brewing requirements applicable to brewpub restaurants.

Restaurants Adapt

As COVID-19 upended the industry, operators coped with evolving state and local health and safety regulations by rethinking how they provided their food. Many moved quickly to adapt their business models and provide customers with more flexible, low-risk dining options, such as takeout and contactless delivery service. Since then, the state's overall COVID case numbers have held steady and restrictions on restaurant operations have been loosened. Many restaurants now offer outdoor seating on patios, sidewalks, or closed-off streets, while others have transitioned to indoor dining with various capacity limits.

To keep customers and staff members safe, the CRA notes that restaurants have deployed rigorous health and sanitation practices in accordance with industry guidance issued by the state Department of Public Health. Safety measures include physical distancing, conducting regular employee health screenings, and requiring employees to wear face coverings when unable to maintain a six-foot distance from other workers and customers. Meanwhile, changes to restaurant layouts include increased outdoor space to compensate for smaller indoor capacity due to distancing requirements, disposable or electronic menus accessible via smartphones; silverware pre-rolled in napkins; partitions placed

between booths; more hand sanitizer stations and the availability of high-touch items such as condiments upon request.

Workforce Shortage

As state aims to reopen the economy more fully by June 15th, many restaurants have sparse staff and are struggling to meet their current allowable capacities. According to March 2021 figures from the Employment Development Department, the restaurant labor force statewide is down 26% compared to March 2020. Potential factors contributing to the shortage may include unemployment and federal stimulus benefits, health and safety concerns about working during the pandemic while vaccine efforts are still ongoing, and a desire for more stable career paths. The CRA notes that, as the state prepares to reopen and capacity limits are lifted, more restaurants could close in the months after June 15th due to lack of staff.

Future Trends

In its 2021 State of the Restaurant Industry Report, the National Restaurant Association notes that the industry will need time to recover and crucial financial aid to get back on track. Despite a year filled with uncertainty, heightened health and safety protocols, reduced business, and operational challenges, the Association highlights the resilience of the industry as it adapted to changes in innovation, technological advancement and menu creativity that are likely to last even after the pandemic subsides.