

Written Testimony In Favor Of A City Buyback Of Restaurant Liquor Licenses

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Boston City Council, Committee on City and Neighborhood Services:

Hearing Regarding the City of Boston Purchasing Liquor Licenses

May 27, 2020

Good Afternoon. Councilor Flynn, thank you for hosting this hearing today and thank you to Councilor Edwards for inviting me to participate in this conversation on a topic that is of critical importance to our restaurant & hospitality industry, Boston's small business community, and to the health and equity of our local neighborhood economies now and into the future.

My name is Gustavo Quiroga and I am representing my colleagues at Graffito SP, a Boston-based advisory firm that works with developers and landlords to deploy creative strategies for ground floor activation within mixed-use real estate projects. Our work sits at the intersections of neighborhood strategy, urban design, and retail leasing, the latter of which is primarily focused on deals with local independent small businesses, including numerous local restaurant owners.

I am joining you today to voice support for the City of Boston pursuing a restaurant liquor license buyback program that would replace the current license paradigm with a no-value, non-transferable system. Such an approach would finally give the City the local control of this important licensing matter that numerous other cities across the region already enjoy. This would allow for a more strategic and equitable application of liquor licensing policy than is currently possible.

Today, as we struggle through the unprecedented consequences of the COVID-19 crisis we believe that a liquor license buyback would serve as a powerful tool in blunting the economic challenges hitting our restaurant community for the following reasons:

- i. A liquor license buyback program would serve as a critical and immediate small business relief effort in the form of cash support at a time when restaurants are under enormous economic strain.
- ii. A buyback program would help to chart an inclusive path forward to economic recovery in Boston by finally giving the City the power to bring reform and balance to an antiquated and inequitable alcohol licensing system that has locked whole neighborhoods out of economic development opportunities for years.
- iii. Given the rapidly changing nature of restaurant economics and the values of liquor licenses in the market, now is the most opportune time for the City to take this bold action.

Meaningful efforts have been made to reform liquor licenses in the pre-COVID context, however, now is the right time to take bold steps toward reform in a way that also serves as a powerful small business relief tool when we know small business owners need a lifeline. It would also build on the many impactful efforts the City has already initiated to help small businesses during this time.

Over the past two and half months my colleagues and I have dedicated a substantial portion of our days talking with dozens of retailers to understand the challenges they are experiencing and identify the ways we can be most helpful as they navigate this time and struggle to survive this crisis.

The stories we've heard of lost livelihoods and dreams are heartbreaking. Entrepreneurs who at absolutely no fault of their own were forced to shut the doors on successful businesses in neighborhoods across the city. Those who have been able to stay open through take-out and delivery have still needed to reduce staff, curtail operations, and cut expenses.

Even still, the significant fixed costs of operating a restaurant don't get cut in half if half your business evaporates. Surviving through 2020 is a serious question for an alarming number of restaurateurs. Without significant intervention, the reality we see over the next 12-18 months is a retail landscape dramatically altered with storefronts going dark and once vibrant neighborhood gathering places shuttered.

The damage to the restaurant industry bears particular attention given the important role that restaurants play across the city as anchors for neighborhood business districts, engines of hyper local job creation, economic gateways for our immigrant communities, and vital gathering places for families, friends, and community. Restaurants are more than just businesses; they are critical pieces of our social infrastructure that are essential to the health of broader small business ecosystems. A liquor license buyback would help to stabilize restaurant businesses and in turn would help stabilize Boston's currently fragile neighborhood business districts.

Immediate and Needed Small Business Relief

There are over 1,100 liquor licenses in Boston, mostly in the hands of local, independent small business entrepreneurs struggling to pay bills, make payroll, and pay suppliers. Buying back liquor licenses would provide a unique opportunity for the City to use its power to provide much needed liquidity to small businesses owners in exchange for a tangible asset.

- Restaurants will struggle throughout 2020 given the likely restrictions they will need to operate under for the foreseeable future, including reduced occupancy, closed off bar areas, and generally lower demand in the market.
- Even when reopened, survival at 50% occupancy limits will be an insurmountable challenge for most neighborhood restaurants and bars that once counted on full dining rooms and shoulder-to-shoulder bar areas just to get by in a business with razor thin profit margins.
- The Paycheck Protection Program did not prove to be of great help for most restaurants. PPP was not well suited or structured for retail restaurant businesses that were forced to severely reduce staff without much hope of re-staffing to the levels that PPP requires in order to achieve loan forgiveness.

- Graffito has joined other small business advocates in the past months calling on governments to recognize that small businesses need grants, not loans. With the average full liquor license recently estimated at \$450,000, even a highly discounted buyback of license would serve as significant cash grants to help operators stay afloat right now.

Reforming An Outdated System

In addition to the immediate economic relief that restaurants need today, a liquor license buyback would set the stage for a more equitable and geographically diverse recovery from the economic impacts of COVID-19 in the months and years to come.

- Today's archaic liquor licensing system exacerbates inequality of opportunity throughout the city. The scarcity of licenses and open market for transferring licenses drives up their costs, thereby inflating the amount of up-front capital needed to open a new restaurant in Boston compared to in cities like Cambridge and Somerville.
- The financial and regulatory barriers to acquiring a liquor license in Boston have been most acutely felt by women entrepreneurs and people of color, and have resulted in whole neighborhoods in our city without full-service restaurants that could be centers of social activity, cultural hubs, and sources of jobs and opportunity.
- A liquor license buyback program and transition to a "no value/non-transferable" system would be an opportunity to fundamentally restructure the licensing system, provide more local control over licenses, and support entrepreneurial opportunities and economic development across more neighborhoods at a time when we will need small business investments to spearhead local neighborhood recoveries.

The Right Time For A License Buyback

Now is the time for the City to make an investment in a liquor license buyback program, when small businesses need the help most and when the economics of licenses still allow for a meaningful return to license holders but also offer the City a "discount" on full value costs.

- In the coming months, with depressed economic activity and restrictions on operations, restaurants will not be able to generate the revenue they once did from a liquor license. Additionally, we fully expect to see more restaurants close this year. These combined factors will put downward pressure on license values.
- Given the changing market for licenses, an investment by the city in a buyback would achieve both license reform and needed small businesses relief at the most optimal economics for both sides of the program.

We fully recognize that there are many details to be considered and resolved regarding the mechanics of this proposal. We do not presume to come to this hearing with answers to all of them, nor do we even believe there is a singular solution to some of the technical and economic considerations raised by such a significant regulatory change. However, we do believe that this proposal represents a unique opportunity that is worth our collective efforts.

We look forward to working with you and other stakeholders to refine these ideas and develop a solution that achieves our shared goals of supporting small business owners across the city, helping to save so many of the restaurants that we have come to value and cherish, and set a path forward toward an equitable and balanced small business recovery across every neighborhood in Boston.

Thank you.