



SENATE MAJORITY POLICY COMMITTEE TESTIMONY | APRIL 13, 2021 | HEARING @ 10:00AM DARYL MORRIS | KALAHARI RESORTS, MOUNT POCONOS - GENERAL MANAGER

Good morning, Mr. Chairman, ranking member, and all members of the committee. Thank you for the opportunity to make a brief statement this morning on behalf of Kalahari Resorts Mount Pocono on the economic impact of COVID-19 closures on our destination resort.

KALAHARI RESORTS HISTORY

Our founders, Todd & Shari Nelson, started their journey as entrepreneurs in the hospitality industry by opening the Pizza Pub restaurant in Wisconsin Dells, WI in 1983. Kalahari Resorts started, and has remained, a family owned and operated business with all five children actively supporting ongoing operations while focusing on future developments to grow our Kalahari Resorts brand. As owners, The Nelson Family is fully committed to continue investments into our current destination resorts and future developments, strategically bringing the Kalahari experience to more domestic destinations. Kalahari is proud to be a significant leader in the hospitality industry, offering four destination resorts located in: Wisconsin (2000), Ohio (2005), Pennsylvania (2015) and Texas (2020). https://en.wikipedia.org/wiki/Kalahari_Resorts

COVID-19 IMPACT ON KALAHARI RESORTS POCONOS (HUMAN RESOURCES)

I'd like to provide the committee with some perspective concerning the COVID-19 impact upon the ongoing employment challenges at our destination resort in Mount Pocono, PA.

- March of 2019, Kalahari Resort, Mount Pocono employed 1207 associates (approximately 700 FTEs). During normal years, we generally see our highest demand from Memorial Day to Labor Day and employ approx. 1,500 associates as leisure business drives our volumes.
- March of 2021 (post COVID-19), Kalahari Resorts, Mount Pocono employed 907 direct associates (approximately 600 FTEs), a 25% decrease of our normalized staffing support to operate our destination resort at full potential.
 - *Note, this employment number is up from our lowest level of ~700 associates (400 FTEs) upon reopening in January 2021.*
- Pennsylvania's Unemployment rate is 7.3% (seasonally adjusted, for February, latest figure available). Unemployment Rates for States (bls.gov)
- This makes Pennsylvania 40th out of 50 states. I.e, we're in the "bottom 10" for employment
- Despite having some of the worst employment figures in the country, businesses cannot locate associates to work and are required to source candidates from other states to travel to PA to work.
- PA offers up to \$573 a week in unemployment for up to 52 wks with COVID-19 extensions, and the Federal Government is offering another \$300 per week as well until at least Sept

6th. That means if you are an unemployed Pennsylvanian, you can make the equivalent of the salary threshold (\$45.4k, 35% of which is non-taxable income) without working.

- **Because of the way benefits are calculated, someone who previously made \$13.50 an hour would now make \$14.78 an hour to remain at home.**
- It only ceases to become "more profitable" to stay at home when you were making \$16.25 an hour, and even then, you are only losing a few cents an hour until you hit the maximum.

When we reopened in June 2020, from the yellow to the green phase, 30% of our active associates chose not to return to work when offered their previous position. Unfortunately, they continued to receive unemployment benefits that exceeded their wages due to the additional \$600 pandemic unemployment payment. As a responsible business in the state of Pennsylvania, we recognized and reported concerns to the Pennsylvania Unemployment Claims office that active associates refused available work, yet the individuals offered work in their prior employment position and who declined to return, continued to receive pandemic unemployment benefits through the state of Pennsylvania. Kalahari was left without a resource to support our business operations. This continues to be a relevant challenge for our destination resort today and into the foreseeable future as business demands return and available staffing is incentivized to remain unemployed.

While the State had stated that they would protect unemployment costs to our business, our costs ran into millions of dollars over the course of 2020. We noted unemployment fraud was at an unprecedented level and saw little response to our claims. As an example, prior Kalahari associates who worked for the company from 2016-2017 claimed unemployment because of the \$600 pandemic payment (and receiving unemployment compensation) and received unemployment said benefits, based on our records.

Additionally, due to the many uncertainties of the Dept of Health orders, we have lost valuable hospitality professionals to other industries. One reason was our inability to provide predictable work hours to sustain their employment in a full-time status, therefore supporting their respective families and financial responsibilities.

FINANCIAL IMPACT OF COVID-19 ON OUR RESORT

- Kalahari Resorts did not qualify for PPP given our resort employs over 500 associates.
- Our direct reopening cost burden exceeded \$100K to comply with CDC guidelines upon reopening, including a thermal scanning camera for our associate entrance at a cost of ~\$20k. Not to mention the payroll costs associated with preparing our business to reopen, the cost to replenish all perishable inventories, hire and train new associates given some previously active associates chose not to return due to the pandemic unemployment options afforded to them and the cost of marketing our resort while yielding rates to attract business to our resort once again.
- Kalahari Resort Poconos as a destination resort was down 30-35% in revenue in 2020. This was primarily due to occupancy restrictions of the Indoor Waterpark where we were not to exceed a 50% peak occupancy. Additionally, we were fully compliant with all CDC guidelines relative to managing hotel occupancy, restaurant and bar restrictions and significant

restrictions on our meeting and convention space, causing most if not all meetings to cancel and/or postpone into future years.

- Kalahari Resorts, Mount Pocono carries ongoing and incremental payroll costs exceeding \$50K/month to adhere to CDC guidelines, hiring ~20 dedicated associates in excess of prior staffing levels.
- Kalahari Resort Poconos experienced a loss of ~\$11M in direct operating profits during the December 2020 closure mandated by Governor Wolf. As a reminder, we were advised by Governor Wolf on Friday Dec 11, 2020 that we had to close for 23 days, starting at 12:01am on Dec 12, 2020, given only 8 hours' notice before the mandated closure. This required us to advise all future reservations through Jan 4, 2021 that we would not be able to honor their reservations due to the state mandated closure and refund/rebook all active reservations.
 - In general, the December holiday season is a high-demand time for our leisure destination and our associates depend heavily on their earning potential during these three weeks to sustain their financial obligations while earning discretionary income for the holidays, further stimulating our local economy.

Please note that with all that being said, the Nelson Family extended significant Closure Pay & Benefits afforded to all active Kalahari Resort, Mount Pocono associates at the time of the two closures at significant expense. They are:

- Two Weeks paid upon initial closure, March 17 – 31, 2020
- Associates were given the opportunity to exhaust any banked PTO after April 1, 2020 in order to support their families (given that unemployment benefits were unknown and payout timelines uncertain)
- All Health Benefits were paid in full for all active associates, April - Jun 2020
- Upon the second closure mandate, December 12 - January 4, 2020, Todd Nelson decided to pay all active associates at the time of closure for the projected 23 days of closure, ensuring they could provide for their respective families over the holidays and for many during a premium earning period, the end of year holiday season.
- Kalahari Resorts supported all Peruvian & South African J1's that were unable to return to their home country for up to 60 days while they navigated departure while restrictions were taking place worldwide. Our local leadership safely delivered food and necessities while providing their housing at no cost during this challenging time.
- Kalahari Resort Poconos leaders volunteered to support weekly Food Drives, April 2020 - June 2020, supporting 250-400 associates per week with food provisions for themselves and their families. Additionally, Kalahari Resorts Poconos extended another food drive in Dec 2020 due related to the second mandated closure.

MEETINGS & CONVENTIONS

- Kalahari Resorts Poconos invested \$40M in 2019 to add an additional 100K square feet of meeting and convention space to attract larger meetings to our region, thus filling mid-week base business with strong group occupancy. We have not been able to activate the space thus far except for a few trade shows pre-closure, thus the space ROI and additional room

sales and taxes have not become reality due to significant indoor/outdoor meeting and event restrictions.

- Note: contracting and booking large events: 6-9 months min, allowing for marketing, planning and coordinating such events for planners, attendees and guests.
- Our Government, Corporate and Education Association business channels have cancelled into Summer/Fall 2021 due to the lack of guidance on large meetings and gatherings in PA. We continue to lose confirmed business due to these uncertainties.
- In order to activate this investment correctly, we require concrete guidelines as to when capacity restrictions will be lifted, with insight into what metrics are being used to allow the easing of restrictions (Red, Yellow, Green).
- Meeting Planners must have time to market and plan events and require certainty that they can execute their planned event. In addition, they must ensure attendees that they will be able to attend under all CDC requirements (at the time of the event), protecting their safety and accomplishing their mission.

FINAL THOUGHTS

The Pocono Mountains attracts approximately 30 million guests per year who spend \$4 Billion annually. Hospitality businesses provide 37% of the employment and close to 65% of the labor income in the Poconos. It is the #1 industry. More importantly, our industry generates \$416 Million annually in taxes. These are dollars generated from millions of out of state guests. This was reported via a 2018 study commissioned by DCED. Without our industry, each citizen in the Poconos would be paying an additional \$1,500 per person in taxes.

Sites studies: [Economic Impact & Tourism in PA, 2018](#) | [Economic Impact in The Poconos 2018](#)

CONCLUSION

- Understanding that Pandemic Unemployment was established to assist many Americans in need during very challenging times, the program and incentives need to be reviewed and amended to verify Americans receiving benefits are actively seeking work, accepting similar work as their prior employment or jeopardize their unemployment benefits immediately.
- Our destination resort and amenities need to be considered differently than independent restaurants and taverns. We offer an inclusive experience where guests can enjoy all of our amenities and our design offer elements that vary from independent units, yet we fall into the same governance when it comes to restrictions. i.e.: to-go beverage sales.
- Pennsylvania's response to the pandemic will disincent entrepreneurs, like Todd Nelson, to establish business operations in Pennsylvania given that other states provided more reasonable business restrictions and insight into potential future impact of the pandemic. Other state governments provided more collaboration with the business community, seeking ways to ensure a mutually successful approach to safely operate while maintaining profitable business operations.

DARYL MORRIS

General Manager

Kalahari Resorts, Mount Pocono