



**Ministry of Finance
Ontario Pre-Budget Consultations 2018
ORHMA Submission**



February 8, 2018

Hon. Charles Sousa
Minister of Finance
C/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto, ON M7A 1Z1

Via email: submissions@ontario.ca

RE: ORHMA 2018 Pre-Budget Recommendations

Minister Sousa:

Thank you for the opportunity to have participated in your pre-budget consultations we are writing on behalf of the members of the Ontario Restaurant Hotel and Motel Association (ORHMA) to provide further input in the 2018/2019 Ontario Provincial Budget.

We recognize you announced policies in your Fall Economic Statement that were to assist Ontario's hospitality adjust to the minimum wage increases however, it was not enough. The Provincial Government promised the hospitality industry "offsets" following their announced rapid minimum wage increase scheduled for January 1, 2018. Your "Fiscal Economic Statement" is not adding up to provide relief to our industry. Instead, it is setback for all hospitality businesses in Ontario. Our members feel ignored.

Layering labour reforms and wage increases on top of the growing government policies severely impact the hospitality sector, including rising hydro costs, CPP Enhancements, cap and trade, rising municipal property taxes and the long list of economic challenges faced by the hospitality industry. We ask the Provincial Government, once again, to study the impact your policies have done to businesses while considering the timing of any new policies.

When the payroll of a business increases, so too do other costs, such as the EHT, WSIB, Employment Insurance, leaving our members angry and feeling undermined by such ill thought policy decisions.

Please find enclosed budget recommendations that will have a meaningful impact on Ontario's hospitality sector. ORHMA and our membership recommend that you:

- delay the next minimum wage increase schedule for January 1, 2019. The recent 33% minimum wage increase has resulted in unprecedented part time job losses.
- freeze the liquor server wage.
- freeze the student wage.
- reduce LCBO mark up fee charged for licensee alcohol purchases.
- increase the EHT threshold to \$1.5 million to support small business growth and sustainment.



- develop energy reduction policies conducive to mid-size and small business.

Today, ORHMA is Canada's largest provincial non-profit industry association that represents the interests of Ontario's foodservice and accommodation sectors. ORHMA is dedicated to fostering a positive business environment for Ontario's hospitality and tourism industry, while providing value-added services to its members.

ORHMA & Industry Impact: Ontario's hospitality industry is one of the most dynamic and competitive sectors of the provincial economy contributing 4.3% of the provincial GDP, generating over \$23 billion in sales and is a major employer of over 400,000 jobs. That equates to an estimated \$9 billion in tax revenues generated for all three levels of government.

In today's Ontario the hospitality industry, with more than 22,000 foodservice establishments and 3,000 accommodation properties, has the potential to create more jobs, more investment and more service destinations. With over 201,000 businesses related to tourism products and services representing over 17% of all business in Ontario, hospitality and tourism GDP in Ontario is greater than that of agriculture, forestry/logging, commercial fishing/hunting and mining industries combined. We are uniquely positioned to contribute to the economy of every Ontario community.

ORHMA & Industry Challenges: The hospitality industry directly employs over 400,000 Ontarians, representing 7% of the total provincial employment. One Municipality alone, the City of Toronto restaurants employ approximately 70,000 employees.

The hospitality industry is a significant component of the provincial economy and character, yet is vulnerable to economic volatility and unexpected weather disasters such as the recent ice storm. Over the last decade since 9/11 the hospitality and tourism industry has experienced tremendous pressures on business due to a number of catastrophic events and measures.

The restaurant sector since the recession of 2008 and 2009 has changed. Its not about revenue growth anymore, its about pressures on the expense lines impacting the razor thin business bottom lines currently running at an average of 3.5% pre tax profit. Full service restaurants are operating at 2.5%. Ontario remains well below the national average of 4.1%.The accommodation sector over this time dropped by 50% on profit margin and it has only been recently that recovery is taking place.

Recovery is mainly stemming from lower Canadian currency and is generating top line revenue growth but profit margins have yet to recover due to the expense pressures. These pressures include regulations brought on by governments that usually are well intended but have severe consequences on our hospitality industry. Business profits are an important element of growing the economy including growing jobs. Most in the restaurant sector are aiming to only be sustained and just paying the bills to make ends meet.

Any new policies or regulations in a vulnerable economy from the provincial government impacting restaurant, hotel, motel and accommodation sales will add another tough impediment to those that count on specific market clientele. We continue to request that your government recognize our industry crosses over several ministries and while you may think there is a reduction in red tape that is truly not what is happening. Our industry continues to be badgered and constantly under regulatory scrutiny by all three levels of government which limits business growth in investment. Our members expect government policy to have a positive impact on their business – they are discouraged and concerned about the accumulative impact your



government's policies will have on their restaurant and or hotel and accommodation business here in Ontario.

The mistake the government has made is to view the minimum wage in a silo, without taking into consideration the context in which particular sectors operate, or the myriad of costs they face. For many businesses, there are now three options: raise prices; significantly reduce staff or seek automation to strip human interaction out of their business, or close down. A temporary \$2 an hour wage subsidy for those aged 16 to 29, does not address the deep, long term systemic challenges our members are tackling. Instead of helping the main street your government has erected a roadblock. If there was a longer phase-in period for the next round of general minimum wage increases, at least one lane on Main Street would be left open.

We understand your government is tackling a deficit however, if something is not done to protect the Hospitality Industry (restaurants, hotels, motels and accommodation) – Ontario could be faced with a hospitality sector crisis. It is getting harder and harder for our industry to make ends meet. We ask that you take our recommendations seriously and help the hospitality industry sustain and grow in Ontario.

Thank you for your consideration of our ORHMA Pre-Budget 2018-19 recommendations found attached to this letter.

Yours truly,

A handwritten signature in black ink, appearing to read "Elenis", written over a white oval background.

Tony Elenis
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There's Benefit in Belonging!





ORHMA PRE-BUDGET RECOMMENDATIONS

1) Beverage Alcohol: There are approximately 17,500 licensee establishments in Ontario that can benefit from a reduction of the LCBO mark-up fee charged for licensee beverage alcohol purchases. Currently licensees do not receive a price reduction than the consumers and most pay around \$10 more for a case of beer than the consumer when ordering from The Beer Store (TBS). Licensees are not offered nor can they take advantage of any special discounts, rebates or in-case promotions given to home consumers from TBS. Furthermore licensees cannot take advantage of the 10 per cent approximate discount offered to LCBO agency stores located across the province.

Embedded in the full retail price of beverage alcohol is a complex regime of fees, levies, markups and taxes, both Federal and Provincial (e.g. Excise or Customs Duties and HST). The LCBO currently calculates licensee pricing by taking the base price of spirits and wine subtracting a 5 per cent discount for imported products and a 10 per cent discount for Ontario wines then adding a 6 per cent mark-up fee. (Beer and cider purchase calculations vary)

In 2016 Ontario's licensees purchased \$ 518,202,000 in total beverage alcohol products from the LCBO. Included in this amount is the 6 per cent mark-up fee which equals to \$20,455,344.

ORHMA recommends the province reward licensees that have earned the "Best Bar None" (BBN) accreditation be rewarded for a reduction in the beverage alcohol mark-up fee. Those businesses where BBN is operating and who have passed the accreditation would then have a one to six percent reduction in fees when making purchases at the LCBO.

The BBN is a volunteer program driven by the Ontario Restaurant Hotel & Motel Association (ORHMA) and the Alcohol and Gaming Control of Ontario (AGCO) within an oversight committee structure that includes Mothers Against Drunk Drivers (MADD), Residents Association, Liquor Control Board of Ontario (LCBO) Police Services, Local Business and Resident Improvement Areas, Municipal and Licensing Standards Division and Industry stakeholders.

The Best Bar None is a complement to the AGCO's continuing work with liquor sales licensees to help them stay compliant with Ontario's liquor laws and improve public safety. It has been proven to reduce serious violent crime, service of underage and police calls. It builds a safer environment in an area decreasing enforcement and health expenses benefiting all levels of government.

The Best Bar None accredited businesses maintain the highest standards for their customers and staff, manage the sale and service of alcohol responsibly, and have good relationships with the community and hospitality industry partners. They also compete with other establishments for annual awards. The inaugural year for Best Bar None Ontario in 2012/2013 was a pilot that encompassed the Entertainment District in downtown Toronto. In 2014 the BBN program expanded to the Toronto downtown core and in the ByWard Market in Ottawa. Now the program is expanding throughout the City of Windsor. All licensees in these areas are encouraged to participate in the program.

In Toronto almost 1500 establishments can participate in the program and in Ottawa's ByWard Market over 100 establishments can participate, and now in Windsor, all licensees can participate in the program.



In the first pilot year, surveys revealed that:

- 83% of patrons said they would be likely to attend a BBN establishment
- 71% of patrons see a need for BBN
- 100% were satisfied with the awards ceremony
- 86% of accredited establishments were satisfied with the assessment process

(source: Malatest Program Evaluation and Market Research for TED)

Licensee benefits to participating in the program include:

- Positive public image
- Potential for increased patronage and profits
- Reduced alcohol-related incidents
- Improved employee morale
- Increased opportunity for free marketing
- Participation in an elite group
- Increased customer safety

Businesses will receive a certificate and signage to indicate to prospective patrons that you are a “Best Bar None” accredited establishment and can use the Best Bar None logo on your marketing materials and have additional opportunities for free marketing opportunities. Please see link for more information: <http://www.bbnontario.ca/>

2) Employer Health Tax (EHT): Under the Employer Health Tax Act (EHT) eligible employers in Ontario pay a health tax although over the first \$400,000 of payroll threshold. Prior to the minimum wage increases that were initiated in 2004 many small business employers were under the set threshold therefore were not eligible to pay the EHT. Since 2004 minimum wages have increased by 62.2 per cent yet the EHT minimum threshold amount has not moved up forcing small businesses to incur payments to the EHT.

ORHMA requests the Ontario government to increase the EHT threshold to \$1.5 million to support small business growth and sustainment.

3) Tax Rebate on Global Adjustment (GA)/Energy Costs: Our industry operates twenty four hours, seven days a week and both hotels and restaurants rank as the most energy intensive industry in the business and institutional sectors. The ORHMA has calculated the GA portion of an average hospitality business hydro bill at over 70% of the total. For further reference see ORHMA’s 2017 Energy Paper prepared and previously send to the Minister of Energy.

There are enormous amount of reports and studies on Ontario’s energy file and recently much has been stated about the impact to consumers. We are reaching a pivotal point where even the same government that has drafted the current energy policies have begun to admit mistakes and setbacks while examining means to reverse the heavy burden to its citizens. Our industry needs to be considered while you review and move forward with hydro/energy policies.

The large share of the hotels and restaurants are made up of small and mid-sized businesses many operating with razor thin margins. These businesses have been facing ongoing tough times. The hotel margins reached a 50% reduction since the year 2000 and restaurants operate 2% less in pre-tax profit margins than the national average and less than any other province. It’s



not about revenue growth anymore as much as it's about the pressures on the expense lines stemming from rising labour costs, food commodities price increases and exorbitant energy costs.

"It's tough to invest and operate a hospitality business in Ontario", is something we continually hear from operators and investors. The recent energy reduction

ORHMA requests the Ontario government to develop energy reduction policies conducive to mid-size and small business.

4) Beverage Alcohol Sales: Ontario Licensees who are the largest purchaser of alcohol from LCBO. Our Licensees would like the option to be able sell alcoholic beverages at their establishments for customer use at home. The licensee hospitality operations are the most appropriate sector to sale alcoholic beverages. They follow AGCO procedures and standards through the Liquor License Act and have smart serve trained personnel. They understand the laws of handling alcoholic beverages.

ORHMA recommends the government allow liquor sales licensees to sell beer and wine to consumers at retail for home consumption in addition to on-premises sale and service, as is done in five other provinces and now in Ontario's grocery stores. ORHMA requests for hospitality business to have the option to sale beer and wine at retail through an AGCO licence endorsement to maintain control.

5) Beverage Alcohol and Wholesale Pricing: More than three quarters of all foodservice establishments in Ontario are licenced to sell and serve liquor, and are guided by the *Liquor Licence Act*. Other than a minor discount provided on LCBO purchases (5% on all products except Ontario wine which is 10%) and no discount from The Beer Store/Brewers Retail Inc. (TBS/BRI), liquor licensees must pay full retail price on beer, wine and spirits. Ontario home consumers can actually buy alcoholic products for LESS than licensees as the licensee

Licensees essentially subsidize the discounts offered to home consumers as a marketing tool for TBS/BRI. This is not equitable, nor conducive to sales stimulation or new job development for the operator. Embedded in the full retail price of beverage alcohol is a complex regime of fees, levies, markups and taxes, both Federal (e.g. Excise or Customs Duties and GST) and Provincial.

Licensees are currently not permitted to make purchases from TBS/BRI using credit cards, an arbitrary policy which puts significant pressures on licensees' cash flow and access to credit.

A wholesale pricing regime will provide some alleviate some of the financial pressures resulting from the deposit-return program on wine and spirits containers, and stimulate economic activity within the industry to allow licensees to be more competitive.

ORHMA urges the government to implement a true wholesale pricing regime for liquor licensees, and that the amount of the discount should be at least equivalent to the discounts available to the LCBO's agency store system.

6) Expand Provincial Nominee Program to Include Cooks: Ontario recognizes that employers play a critical role in economic success. For many employers, newcomers to Ontario are a valuable source of skilled labour. If you are an Ontario employer having difficulty finding the workers you need, Ontario Immigrant Nominee Program may be the program for you.

Most provinces and territories in Canada can nominate immigrants through the Provincial Nominee Program (PNP). These immigrants must have the skills, education and work experience



to contribute to the economy of that province or territory, and must want to live there. Each province and territory's streams, eligibility requirements and nomination guidelines for their PNP can change without notice.

The Ontario Immigrant Nominee Program (OINP) is an economic immigration program designed to help Ontario meet its labour market and economic development priorities. The program allows Ontario to nominate, for permanent residence, individuals who have the skills and experience to contribute to Ontario's economy, and assists employers in recruiting and retaining foreign workers.

Ontario Immigrant Nominee Program is designed in part to assist employers who are having difficulty recruiting qualified, skilled workers in Ontario.

ORHMA recommends the OINP to include cooks to be recruited to our provincial program to address a shortage of labour in the hospitality industry.

7) Immigration Program to Accelerate International Students to be Residents: Ontario is encouraged to make immigration policy changes to ensure all hospitality work experience helps those applying for permanent residence status gain valuable CRS points in the Express Entry Process. Today, this is not the case and the provincial government needs to access and move forward.

Many hospitality students attending hospitality programs in Ontario are foreign students. According to the Canadian Bureau for International Education (CBIE) October 2016 Report since 2009, the Ontario College system has experienced a dramatic growth in international students. The range of growth for individual colleges varies from 110% to 3,246%, with an individual enrolment count in 2015 from 24 students to 5,365 students. International student growth far exceeds that of ministry funded students at the system level; 246.0% and 11.4% respectively.

In a closer examination of individual colleges, international students are compensating for a decline in domestic students and has allowed for the continual growth in student enrolment. The growth of international students is apparent in all regions across the province with the Northern Region increasing its international student enrolment by 1,384.5%, and Toronto colleges increasing by 158.7%. Toronto colleges have grown by 10,000 international students since 2009, almost four times the international student enrolment of Northern colleges in 2015. The number of international students at the four Toronto colleges is almost half (47.8%) of the total international student population in all 24 Ontario Colleges. Ontario universities and colleges train these foreign students and once they graduate most return to other foreign destinations with expertise gained here. For more information regarding international student enrolment see the CBIE Report: <http://cbie.ca/wp-content/uploads/2016/11/FINAL-CBIE-Research-in-Brief-N6.pdf>

ORHMA supports express accelerating immigration program and increasing international students to become residents. If the immigration program accelerated international students to be residents the hospitality industry would have an opportunity to employ these students and grow our industry with educated talent that is required.

8) Capital Loan Program Stimulate Economic Growth through a Capital Loan Program -The government does not have a meaningful tourism investment strategy with incentive loans to stimulate economic growth in the sector. It is urgent in the short term that a loan program is developed to encourage investment and support competitiveness.



The down economy stemming from 2001 through the latest financial recession of 2007/08 has not been kind to Ontario's tourism and hospitality product. This time period lasted far too long with limited investment in existing operations and in new development. Operators have been struggling to just stay sustainable.

There is huge potential for a stronger tourism sector in Ontario to support more jobs and more services. As the economy is growing this sector needs support in rebuilding to meet demand.

Would your government consider a coordinated infrastructure policy between the federal government and provincial governments that would increase travel and tourism growth, productivity, employment and economic activity?

ORHMA recommends in the short term that a loan program is developed to encourage investment and support competitiveness. Consider programs such as: the Advanced Manufacturing Investment Strategy (AMIS) recently offered by the provincial government is an example of a "ready made" program approved and underway in that sector. Modification will be necessary to fit our industry i.e. loan guarantee rather than government repayable loans. The re-introduction of the Tourism Redevelopment Incentive Program (TRIP) to provide loan guarantees to support new or expanded tourism assets. Programs such as these will enormously benefit job creation as the economy is swinging up.

Conclusion: We recommend that the government review Ontario's hospitality industry before implementation of any new legislation and or regulations –a review and financial impact study makes sense for the government to undertake before adding further laws.

The hospitality industry is extremely regulated and this leads to not only bottom line burden but detractions in meeting the main objective which is giving excellent service. A Reduction of 'Red Tape' allow us to focus on service.

Regulations need to exist for the safety and well-being of our employees and guests but the duplication, excessive documentation, inconsistency, slow processes and without three level government synchronization, barriers are formed to "getting the job done". Many times it's not about eliminating but streamlining regulations.

This would only be successful if government focuses on the Open for Business initiative and improves upon it. We support the government's efforts to drive and improve upon the Open for Business initiative to reduce and streamline regulatory pressures in the industry.