Ontario Restaurant Hotel and Motel Association

Friday July 21, 2017: Standing Committee of Finance & Economic Affairs
Hearing on Bill 148: Fair Workplaces, Better Jobs Act 2017

The Vice-Chair (Ms. Ann Hoggarth): I call on the Ontario Restaurant Hotel and Motel Association. Good afternoon, sir.

Mr. Tony Elenis: Good afternoon.

The Vice-Chair (Ms. Ann Hoggarth): The Clerk is going to hand out your submission. I would ask you to identify yourself for the record, and your five minutes will begin.

Mr. Tony Elenis: Hello. I'm Tony Elenis, president and CEO of ORHMA. I'm here to talk about a vulnerable sector of the workforce that government's policies have forgotten and have much potential to hurt a considerable mass of hospitality operators. Many of them are immigrants, entrepreneurs and risk-takers, who built their business with resiliency and a strong work ethic so their children have an opportunity for a prosperous future. That dream and that quest continue today but in a much tougher climate.

You have heard from a few small business owners on the $15 minimum wage. I have heard from many and examined their numbers. Their potential payroll increases are terrifying against a restrictive price-elasticity model. This is an emerging issue that has yet to be defined by past performance, and economists do clash on the outcome. It is responsible to compare Ontario's hospitality performance to other jurisdictions, especially to California and Alberta—and, by the way, no one has until now.

Please refer to figure 1. In the 1990s, Canada's restaurant industry operated in the range of 5% to close to 10% profit margins.

Figure 2: Ontario restaurants continuously underperform the national average and every single province. Alberta is strong, with the green line approximately double the margin performance of Ontario.

In figure 3, we see a similar performance within the accommodations sector. Alberta is performing better, even in 2015, with the oil industry collapsing.

In Figure 4, we examine Ontario's full-service restaurant sector against Alberta and the USA, where both of those jurisdictions can afford to drop two points and still keep their doors open. Ontario does not have that luxury.

Figure 5, for limited service, has a similar trend. The numbers the Ontario business owners are calculating are very real and tragic.

A unique feature of this industry is the gratuity model: 60% of minimum wage increases since 2004 have unintentionally created an inequity issue among hard-working servers and hard-working support staff, such as dishwashers and cooks, who earn just above the minimum wage and are now receiving limited increases. Bill 148 will escalate this issue.

Most tipped workers earn double or triple their actual wages in tips alone. Rightfully, this is a very sensitive issue for the committee to hear directly from employers. ORHMA calls for freezing the liquor server minimum wage to support the industry and support the many workers who deserve better equity. This issue is unique, and an improved system is required.

The state of New York has prepared employers to plan for a $15-per-hour wage on a timetable ranging from four years in New York City to seven years in other counties. Included in the legislation is a safety provision to evaluate if a suspension is warranted.

Since the legislation's first reading, California businesses were given nine years to reach the $15-per-hour wage mark, with phase-in schedules close to six and seven years.

In 2014, ORHMA supported the minimum wage panel's recommendation of an annual CPI increase, setting up a five-year path for business to plan—a predictable and workable situation. Please refer to figure 6, where you'll find that our government leaders agree with these remarks.

Why in Ontario has such an important policy been kept a secret and is being rushed? Is this a secret weapon? Is the business community the enemy?

The 2017 announcement came as a shock. Businesses need time to plan, evaluate various concepts and commit to long-term contracts and investments. Harm to business will harm employees, especially youth, and workers from the disabled community. The consumers, of course, will end up paying much more.

Dear committee members: This is a tragedy. I would ask you to take your political stripes away and not make a political decision but a fair decision to support employers—many are small family businesses—so they can contribute to economic growth and job-hiring.
This is not about not wanting to pay a higher minimum wage. ORHMA calls for this committee to adopt a much longer phase-in.

In closing, we welcome proposed changes within Bill 148. However, we do have strong concerns with specific changes that will clearly have a detrimental effect on the operation, which have been included in our full submission. Thank you.

The Vice-Chair (Ms. Ann Hoggarth): Thank you, sir. Good timing. I'd like to call on the third party. MPP Fife.

Ms. Catherine Fife: Thank you, Mr. Elenis. I'm particularly interested in the liquor server minimum wage piece. In your brief—which is very thorough—you highlight this as a very unique area around the $15 minimum wage. You mentioned that, because of the gratuity model and because of the increases over the years around minimum wages since 2004, it has created this inequity between servers, who have access to gratuities, and the support staff, like dishwashers or cooks, who earn just above the minimum wage. Your industry, obviously, has been dealing with multiple changes year over year. Do you have data that documents what this has done to the culture of your various organizations and the economic impact on it?

Mr. Tony Elenis: I'll tell you about the culture. First of all—and many other speakers before me mentioned it: the slim margins. Industry, business and government have a role to play in that. But it seems that in Ontario, as you can see from the graphs in my introduction, we're not doing as well as other jurisdictions. There's an issue with that.

When you have slim margins, it's all about being able to survive. This is a cash-flow industry that we're talking about. We've compared restaurant performance on energy costs to the province of Quebec; Ontario is 100% plus over and above cost. This adds to the bottom line. So when we talk about this minimum wage in the time frame that we are introducing it in, we're talking about taking a slim margin and making it even slimmer, which will affect the whole performance and the whole culture of the team. Management is about supporting employees. It's about having a focus to grow the business and develop employees. This industry does not have the luxury to develop the HR aspects, which are very important. Employee satisfaction is the most important asset to run a business, yes. We have cooks and dishwashers who have made a career of this—culinary skills included—who have a family to support, and they are not making near the dollars that perhaps a hard-working server generates because of tips.

Ms. Catherine Fife: Okay. So just for clarification, your organization is proposing to freeze the liquor server minimum wage because of the gratuity model, but you don't object to the dishwashers and the cooks, who don't have access to gratuity, receiving a $15 minimum wage.

Mr. Tony Elenis: Correct.

Ms. Catherine Fife: Thank you.

The Vice-Chair (Ms. Ann Hoggarth): We'll move to the government. MPP Cole.

Mr. Mike Colle: Good to see you again, Tony, over the years. We're having these hearings because people like you, who represent very, very critical parts of the Ontario economy, come forward with some commentary on the negative impact and the potential adjustments that could be made to help you get through this. That's why we find this kind of presentation—and we've found that right across Ontario. This is the 10th city now we've had a meeting in. So this is very important to the committee. I know you mentioned the comparisons with Alberta—especially Alberta—in accommodation and food services. The only thing is, whether it's anecdotally or whatever, I just find that it maybe doesn't have the whole picture there, because I don't think there's a more vibrant hotel accommodation industry than there is in Ontario, than there is in all of Canada. Looking at Toronto itself and the GTA, we've been rated second only to New York in terms of quality, in terms of variety. You can eat in the whole world here on one street in Toronto. I just find the explosion of hospitality here has been really remarkable over the last—I remember when Bassel's was the only restaurant—

Mr. Tony Elenis: Right.

Mr. Mike Colle: You remember that. It was the only restaurant you could go to on Sunday. Remember? It was about the only one—and Murray's. I think there was a Murray's, or whatever, and there was one pizzeria on Bay Street. I can't remember the name—but anyway. So what about that side of it? I know you're here to offer suggestions on this, but there are a lot of really exciting things happening.

Mr. Tony Elenis: You're absolutely correct in every statement you made. This is an exciting city, the best city in North American for a culinary experience. And you know what? We have the best management running the hospitality industry. But when you look at profitability in this extremely regulated industry that the hospitality industry is facing with policy after policy—and it has been, whether we like it or not—it does not translate to the bottom line.

There was a study that was done in 2015 for the Greater Toronto Hotel Association, an independent study. They paid someone to do that that does it for a living. We've seen that Toronto, in their competitive set across North America, had the second-lowest net operating income. Montreal was the last, not far behind. So that took us to the bank.

Mr. Mike Colle: Yes, and that's a good point. You're talking about the profit margin. That's the problem, although the industry is very vibrant, exciting etc.
You mentioned something very interesting. You said something about how there are embedded barriers or regulatory issues there that are maybe contributing to this beyond this thing about the minimum wage or beyond other costs like electricity etc. What are some of these things? If you don't have time to do it now, if you could send me a list of some of these—I know the LCBO stuff; we've been doing that for a hundred years. But if you could think of a good, quick list of those things that you can give me now or send to me in writing, I'd appreciate those.

Mr. Tony Elenis: I have a list, and I will send it to you. But it's not about the minimum wage, ladies and gentlemen. It's about all of the expenses. I mean, who would want to run a business without paying their people a decent dollar, whatever that decent dollar is?

Mr. Mike Colle: Because you're going to have so much turnover, right? You're never going to—

Mr. Tony Elenis: Absolutely. This industry has high turnover. It's hard to find specific positions, especially dishwashers, culinary and middle management. Why wouldn't we pay more? But what the government is doing to the industry? I'm out on the street a lot. In every town, I hear the same thing. I hear it in Sudbury, in Burlington, in Windsor, in North Bay and in Toronto, especially: The cost of living here is atrocious for running a business.

Mr. Mike Colle: I know in Toronto one of the things that is happening is that the landlords, the property owners—I know on Eglinton and some streets where they're building transit, they're raising the rents, because they think, "The subway is coming; we're going to cash in." Meanwhile, the poor operator of the restaurant is saying, "I can't afford to pay $10,000 a year to sell chicken."

Mr. Tony Elenis: You've done your homework. When it comes to leases and rentals, we really stand out as the highest expense line across every single province and the national average.

The Vice-Chair (Ms. Ann Hoggarth): Thank you. Well move to the official opposition. MPP Barrett.

Mr. Toby Barrett: Thank you for this brief, as well. I'm just going through some of the data on the minimum wage and Toronto, and I just get the impression that the industry in Toronto is huge. I've asked before, and I remember hearing, when I first worked in Toronto in the 1970s, 10,000 restaurants. How many restaurants in Toronto?

Mr. Tony Elenis: We have approximately 7,000 outlets that serve some type of food, from small to large.

Mr. Toby Barrett: Seven thousand?

Mr. Tony Elenis: Right.

Mr. Toby Barrett: Okay. So in Toronto we hear the profit margin this year is 2.7%. That's pretty tight. But looking at the Toronto figures in your case study for a restaurant with 110 seats, next year—this is under the minimum wage chapter—we talk about profit margins, but we're talking a loss here of 6.6%. And then in 2019, when this kicks in a year and a half from now, the loss is 11.4%.

I look at a smaller city like Guelph: 2.4% margin this year, next year a loss of 10.6% and in 2019, when the $15 kicks in, the margin loss is 17.3%. Can you go more than one year or two years losing 17.3%?

Mr. Tony Elenis: Well, that owner—who I know because he came from the hotel industry and I came from the hotel industry, managing hotels—was ready to open another outlet. Now he is wondering how he is going to survive with this one with his wife, himself and his daughter working in it. It's very sensitive when you try to invest something in your retirement, to help your children out, to get into the business world and they face these kinds of barriers.

Mr. Toby Barrett: So the $15—and who knows what happens the next year or the next year? In California, they know between now and 2023. In 2023, it's $15. And many businesses say, "Yes, we can go to $15, but maybe at 6% a year, not 32% in a year and a half."

Mr. Tony Elenis: Governor Brown brought this up in 2014. There was an announcement then when businesses started to be ready. That's a good time.

Mr. Toby Barrett: So you've got nine years to be—

Mr. Tony Elenis: Absolutely.

Mr. Toby Barrett: You just found out, what, four or five—

Mr. Tony Elenis: The end of May.

Mr. Toby Barrett: —four or five weeks ago.

Mr. Tony Elenis: We met with the advisers of the ESA and LRA review at the start and at the end. They explicitly mentioned to us that the minimum wage was not part of it. The Minister of Labour mentioned that the minimum wage was not part of this review. This came out as a shock at the end of May. I believe it was May 28 or May 29—perhaps May 30.

Mr. Toby Barrett: It would be nice to have nine years to accommodate this.

Mr. Tony Elenis: This is not how business runs. It's not how business runs. Like, 23%: You expect a business to be ready to bring up what we feel is a significant increase? How do you plan? Even at home, you would plan. You would need some kind of planning and time to prepare if you want to buy a boat, if you want to buy a garage, if you want to send your kid to school. It's all about planning. Business invests according to the plans they make, long-term contracts, and they deploy their model accordingly.
If some people want to close down a business, and I hear that, they would be ready to do that and retire. But there's no time for that. Who's going to buy a restaurant today?

Mr. Toby Barrett: Yes. Thank you.

The Vice-Chair (Ms. Ann Hoggarth): Thank you very much for your presentation. If you have a further written submission, it needs in to be the Clerk by 5:30 today. You've got 40 minutes.

Mr. Tony Elenis: Thank you. It's been sent already.

The Vice-Chair (Ms. Ann Hoggarth): I know.