



April 9, 2009

Honourable Dalton McGuinty
Premier of Ontario
Legislative Building, Room 281
Queen's Park
Toronto, ON M7A 1A1

Re: 2009/10 Budget

Dear Premier McGuinty:

On behalf of the Ontario Restaurant Hotel & Motel Association's 11,000 member establishments, I am writing to communicate serious concerns with the government's 2009 proposed budget. The ORHMA is thankful to have had the opportunity recently to raise concerns with staff in your office and the offices of the Ministers of Finance and Tourism and we wish to follow-up that discussion with the following written comments on several aspects of the proposed budget.

In general, it is the ORHMA's sincere belief that the announced fiscal plan not only fails to reflect the economic reality of the foodservice industry but also proposes policies which may be detrimental to the sustainability of restaurants throughout the province. The budget proposes few if any immediate measures to assist restaurateurs this fiscal year. The economic recession has already forced several operators to close and we fear that many more foodservice businesses will not be operating in 2010 when most of the proposed tax policies will take effect.

Minimum Wage

The ORHMA welcomes your recent acknowledgement that the minimum wage has a significant impact on business during tough economic times, but are extremely disappointed with your ultimate decision to continue with this year's increases to the liquor server and student differentiated minimum wage rates when the Ministry of Finance is predicting a 2.5% contraction of the provincial economy in 2009. For some time the ORHMA has been asking government to reconsider a decision it made two years ago when the economy was in much better shape than it is today.

The repercussions of continued minimum wage increases for the foodservice sector are significant. Research reveals that payroll cost increases are almost three times as high for small firms as compared to larger ones and are substantially higher in the foodservice (4.2% to 6.3%) industry. This is especially alarming considering 60% of restaurant establishments are independently owned and operated. Nearly 31 cents of every dollar spent at a restaurant goes directly to payroll costs. An increase to this minimum wage will result in:

- Employee hours being cut and/or jobs being eliminated as operators struggle to maintain a payroll budget in light of falling sales.
- A 'domino effect' whereby less skilled workers receiving a minimum wage increase will put pressure on employers to increase the wages of higher skilled workers.
- The cancellation of expansion plans.
- Render meaningless menu pricing discounts aimed at keeping dining out affordable.

Harmonization

In its move to a harmonized sales tax, the government has chosen to pass on several opportunities to support and provide badly needed stimulus to struggling restaurants and taverns across Ontario.

With the elimination of the RST exemption for meals under \$4, these meals will become subject to a new 8% tax making it more difficult for seniors on fixed incomes and children of low income families to access nutritious meals at affordable prices. Moreover, the ORHMA is skeptical that much of a proposed \$1000 rebate to Ontario families will be returned to foodservice operators who stand to lose revenues due to a move to the HST. The new HST will not apply to basic groceries however it will impose a full 13% tax on any meal prepared at a restaurant. This inherent unfairness between the taxation of food sold at grocery stores versus that of prepared meals will render the foodservice industry uncompetitive at a time when they can least afford it.

Under harmonization the total sales tax applied to the sale of alcohol in licensed establishments will decline from 15% to 13%. However, the ORHMA is concerned with the government's plan, as outlined in the provincial budget, to "adjust" the fees, levies and charges applied to beverage alcohol and to then introduce legislation to replace these fees, levies and charges with taxes. Collectively, licenced establishments are the LCBO's largest customer. According to the LCBO's 2007/08 fiscal report, licensee volume sales (39.4 million litres worth \$484 million) declined 0.2% year-over-year. Additionally, the Ministry of Finance is forecasting an \$84 million drop in LCBO revenue from 2008/09 to 2009/10 *and* is expecting to lose \$17 million in liquor licence revenue from last fiscal year to this. At a time when the Ontario foodservice industry is struggling with the lowest profit margins in the country, the ORHMA urges the government to ensure that the overall tax rates on beverage alcohol be decreased to allow licensees to benefit from the impacts of harmonization. Anything less would be disastrous for Ontario's licensee community.

The ORHMA is eager to engage in dialogue with the government on behalf of Ontario's liquor licenced establishments, in relation to the government's announced intention to reform beverage alcohol taxation.

Skills Training & Apprenticeships

Ontario's tourism industry is projected to have a labour shortage of 120,000 employees by 2025. This trend poses a significant threat to the future competitiveness of Ontario's hospitality and tourism industry. The ORHMA commends the announced increases to investments in skills training and apprenticeships but is dismayed that the proposed budget does not broaden the eligibility criteria for the existing Apprenticeship Training Tax Credit to include the Red Seal positions of Culinary Cooks and Bakers. As a result, Ontario remains the only province in the country without a rebate program to support accreditation in the hospitality industry. It is the ORHMA's sincere hope that we can participate in these initiatives in order to ensure a viable workforce to serve the needs of the hospitality industry in the future.

Tax Relief

The ORHMA welcomes the budget's proposed corporate and small business tax cuts but the government's decision to not accelerate the implementation of these measures for this tax filing season is puzzling. Immediate tax relief is critical to supporting restaurant operators who have already been struggling to remain afloat in the face of weakened consumer confidence due to the market crash of October 2008, the ensuing credit crunch by financial institutions and inflationary trends in the price of food, labour and utilities. We have already seen scores of restaurant operators close their doors. We expect many more not to see 2010.

In light of the concerns outlined above, the ORHMA continues to call on the government to provide immediate support to the foodservice industry through some of the following measures:

- Support for licenced establishments through the implementation of wholesale pricing on beverage alcohol.
- Assistance for small business hospitality operators to access capital in the midst of an unprecedented credit crunch (as recommended in MPP Greg Sorbara's tourism competitiveness study).
- Comprehensive investments in the future sustainability of the hospitality and tourism sectors (also recommended in Mr. Sorbara's tourism study).
- The harmonization of food inspection and health regulations governing the foodservice industry in order to facilitate clarity and even greater levels of food safety.

Looking ahead, the ORHMA will continue to seek the government's support in these areas. The foodservice sector is completely reliant on disposable income and consumer confidence. So being, it has been the first in and will be the last out of the current economic recession. Our industry is not asking government for a bailout – it's simply looking for some immediate breathing room in the form of regulatory and taxation reform.

At a time of unprecedented economic upheaval the ORHMA remains ready to work with your government in order to provide the necessary assistance to restaurants in order to preserve their viability as a significant contributor of jobs and revenue to Ontario's economy. It is our hope that we will be able to report progress to our members in short order.

Sincerely,



Tony Elenis
President & CEO

Copy: Hon. Dwight Duncan, Minister of Finance
Hon. Monique Smith, Minister of Tourism
Hon. Harinder Takhar, Minister of Small Business and Consumer Services
Hon. John Milloy, Minister of Training, Colleges & Universities