



CHECK AGAINST DELIVERY

April 26, 2006

Good afternoon, my name is Terry Mundell, and I am the President & CEO of the Ontario Restaurant Hotel & Motel Association (ORHMA), the largest provincial hospitality industry association in Canada. I want to thank the committee for the opportunity to speak with you today, as Bill 53 is a significant Bill for the hospitality industry. ORHMA membership is comprised of both the accommodations sector and the foodservice sector, all of whom are impacted by this Bill.

Over the past number of years the hospitality industry has suffered from the effects of 9/11 and the resultant border delays, SARS, and the NHL lockout, to name but a few. All of these factors, from which the industry has not yet fully recovered, have been completely out of the control of the government and the industry. That is why it is so important that Bill 53 be used as tool to help support the industry.

The ORHMA recognizes and supports that Bill 53 expressly prohibits the City from levying a hotel room tax. This ensures that funds generated through the voluntary, industry-led Destination Marketing Fee will remain dedicated funds, to be used solely for destination marketing.

The ORHMA does have a number of concerns with different components of the proposed legislation, as outlined in our letter to the Premier. But I wanted to take the few minutes I have with you today to identify for you our main focus - the proposal to grant the City of Toronto the authority to levy a direct retail sales tax on the purchase of liquor, or more simply, to add a fourth tax line to the customer's bill. This measure threatens the sustainability of the hospitality industry's licensee community. **The ORHMA recommends that this committee remove this provision, Section 262.2.5.ii, during clause-by-clause consideration of the Bill.**

When Bill 53 was introduced the Premier stated that "Toronto would now have the ability to be as dynamic, as competitive and as successful as the people who have chosen to build their lives here." But the liquor tax provision of the Bill contradicts the government's stated intentions. It will reduce sales, lower operating margins and jeopardize thousands of jobs in Toronto's licensee community.

Why does Bill 53 specifically target the licensee community, which is 63% independently owned and operated, with a direct tax? No other industry comprised of such a high proportion of small and independent businesses is targeted in this way. Just us. User fees and licensing fees are across the board, everyone pays. But this provision of the Bill targets hospitality, and this at a time when the government should know that operators in this industry are struggling to make ends meet.

Let me give you a sense of why this is so important to our industry.

Ontario's foodservice industry includes:

- 22,000 establishments, 17,000 of which are licensed to sell and serve liquor
- More than 8,000 foodservice establishments in the City of Toronto alone, 4,100 of which are licensed. This represents a quarter of all licensees and a third of the beverage alcohol market. Provincial statistics therefore are reflective of the realities of the licensee community in Toronto.

To be clear, Statistics Canada data shows that Ontario's foodservice sector sales growth between 1998 and 2005, at only 3.5%, lags behind the national average of 4.3% (*Figure 1*). All of the numbers presented today have not been adjusted for inflation. This is more notable when Ontario's sales growth is compared with

just the rest of Canada, whose growth was 4.9% (*Figure 2*). Ontario's sales, which flat-lined for four years, actually bring the national average down.

The two specific segments of our industry that will be impacted by an additional tax on liquor are full-service restaurants and the bar, tavern and nightclub sector.

Figure 3 shows that for full-service restaurants, which generate 18.2% of their revenue from the sale of beverage alcohol, overall sales, at 3.5%, trail the rest of Canada, at 4.6%.

Bars, taverns and nightclubs in Ontario between 1998 and 2005 saw virtually no sales growth. Looking at *Figure 4*, annual sales growth for this sector is only 0.2%. 2005 sales figures for this sector are even below 1999 sales figures. And this segment of the industry, as you will see from *Figure 5*, receives 72.5% of operating revenue from the sale of beverage alcohol. Adding a fourth tax line will simply destroy this segment of the industry.

Now let's talk about profitability. As you will note from *Figure 6*, Ontario's total foodservice industry operating margins in 2004 were the lowest in the country, at 2.8%. Full service restaurants operating margins are only 1.9%, and Ontario's bars, taverns and nightclubs had the lowest average operating margins of any other industry segment in the country, at only 0.9%.

These numbers indicate that in its present form, with profits averaging between 1.9% and 0.9%, the industry is simply not sustainable in Ontario or in Toronto.

Figures *10 and 11* indicate the impact a municipal sales tax on liquor may have on the profit margins of full-service restaurants and the bar, tavern and nightclub sectors. Not only will profits decline, profits will become losses. The industry simply cannot bear another tax.

Licensee purchases used to represent 16% of all sales at the LCBO and, in only a short period of time, this has dropped to only 10.6% in 2004.

This is about the long-term sustainability of an industry that is holding on by a thread: an industry that is now facing altered tourism patterns as a result of the Western Hemisphere Travel Initiative. What is needed now is leadership: not a tax that will threaten the sustainability of the hospitality industry.

The revenue that will be generated by a municipal retail sales tax won't come close to solving the City's financial situation. The City's 2006 revenues are more than \$7.6 billion. It is estimated that a municipal liquor tax of 1% will generate approximately \$4.3 million; an 8% tax could provide the City with \$34.8 million. This doesn't begin to address their concerns or their economic outlook, but it will close doors and eliminate jobs. The City's books cannot be balanced on the back of one industry, particularly this small business sector, 63% independently

owned and operated. These operators in the City of Toronto already pay \$200 million in fees, levies, mark-ups and provincial sales tax remitted on the resale of beverage alcohol, on top of property tax and business licensing fees. Future new investment in this sector will be questionable at best.

To be clear, this provision of the Bill also raises issues of public safety, booze zones, drinking and driving, illegal liquor, smuggling, booze cans, and the enforcement of the illegal element. LCBO's own statistics show that from 2003/04 to 2004/05 untaxed illegal liquor increased by 18% when markups were increased by the provincial government. These will become an issue not just within Toronto but throughout the province.

This isn't about the City of Toronto, or about any other municipality, this is about the sustainability of a small business sector. The fact of the matter is that municipalities in Ontario receive their authority from the provincial government. Bill 53, a provincial Bill, is before you today for consideration. Now is the time to make an amendment. The City doesn't have a vote on this provision, you do. We are asking members of this committee to do the right thing: to support the independent owners and operators who have dedicated their lives and have all their investments tied to this industry, and who have everything to lose, and who are looking to you for your leadership.

The ORHMA is asking this committee that during clause-by-clause consideration of Bill 53, Section 262.2.5.ii, the provision to permit the City to levy a direct retail sales tax on liquor, be revoked.

Thank you.