



**Submission to the
Standing Committee on Finance and Economic Affairs
2007 Pre-Budget Recommendations**

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Ontario Restaurant Hotel & Motel Association
Suite 8-201
2600 Skymark Avenue
Mississauga, ON L4W 5B2
905-361-0268
www.orhma.com

ONTARIO RESTAURANT HOTEL & MOTEL ASSOCIATION
2006 Pre-Budget Recommendations

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RECOMMENDATIONS

- The ORHMA recommends a permanent additional investment of \$20 million annual funding in each of two years for the Ministry of Tourism, through to the Ontario Tourism Marketing Partnership Corporation to be able to undertake dedicated tourism marketing campaigns geared toward identified key target markets, particularly in the U.S.
- The ORHMA urges the Government to work closely with the United States government to continue to discuss and implement alternative secure documents for entry to the U.S.
- The ORHMA recommends that the RST exemption on DMFs be made permanent.
- The ORHMA recommends the revocation of the City of Toronto's authority to levy a liquor tax.
- The ORHMA recommends that the provincial government maintain its made-in-Ontario sales tax system and not harmonize the GST and PST.
- The ORHMA recommends that the Government of Ontario fully eliminate the capital tax, and negotiate an appropriate arrangement with the Federal Government.
- The ORHMA recommends that the hospitality industry be compensated for all costs resulting from the implementation of the deposit-return program through a variety of means, including the elimination of the gallonage fee, the elimination of the environmental levy, the introduction of a wholesale pricing regime, and licensee credit card use at Brewers Retail Incorporated.
- The ORHMA recommends a joint project, in partnership with the Ministries of Education and Training, Colleges and Universities, to host an industry-specific symposium with hospitality industry leaders with educators to develop an industry standard to improve co-op experiences. Such a standard will assist both students and employers in both the co-op experience as well as post co-op employment.
- The ORHMA recommends that the Government amend the Apprenticeship Tax Credit to include apprenticeship positions within the hospitality industry, including cooking/culinary management, and that the Government extend the Apprenticeship Tax Credit beyond 2008.
- The ORHMA recommends that the government provide financial support to implement the ORHMA employment program pilot project for persons with disabilities focused on the hospitality industry.
- The ORHMA respectfully recommends that as labour costs currently account for more than 30% of hospitality industry expenses, and as the hospitality industry cannot sustain continued increases under the present

economic circumstances, minimum wage not be increased in this industry until conditions have improved.

- **The ORHMA recommends that the government establish a rebate or savings program for large energy users who reduce consumption rates to assist with capital upgrades while meeting government's goal of reducing energy consumption.**
- **The ORHMA recommends that the government establish a capital grant program to assist small and medium sized businesses, who do qualify for the Regulated Price Plan, to make investments in energy conversion or conservation technology.**

INTRODUCTION

What is the Ontario Restaurant Hotel & Motel Association?

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

These benefits include cost-saving initiatives, group-purchasing programs and educational services. The ORHMA's Government Relations Department represents the industry's interests to the Government of Ontario and City Halls across the province on issues such as taxation, business regulation, beverage alcohol, labour issues, public health, tourism and municipal by-laws.

Profile of Ontario's Hospitality and Tourism Industry

Ontario's hospitality and tourism industry generated \$20.4 billion in 2004, and the total contribution of tourism and hospitality to tax revenues for all three levels of government amounted to \$9.2 billion. Hospitality and tourism GDP in Ontario is greater than that of agriculture, forestry/logging, commercial fishing/hunting and mining industries combined in 2004. With more than 22,300 foodservice establishments and nearly 3,000 accommodation properties across the province, the hospitality industry directly employs over 415,000 Ontarians. The contribution made by this economic sector is felt in all regions of the province and affects the livelihood of many of Ontario's residents.

Foodservice Industry Highlights

- \$14.6 billion in sales in 2004
- 22,300 units, more than 60% owned and operated by independent operators
- more than 17,000 establishments licensed with the Alcohol & Gaming Commission of Ontario
- 5.9% of total provincial employment (354,000 direct jobs)
- 18.0% of youth employment is in the foodservice sector (170,000 direct jobs)
- foodservice industry employment accounts for approximately 46% of all persons employed in the entry-level segment of the Ontario economy
- average pre-tax profit margins within the foodservice sector are 2.8%, but only 1.9% for the full-service restaurants and 0.9% for the pub, bar and tavern segments

Accommodation Industry Highlights

- \$2.5 billion in room sales annually
- 920 establishments with 30 rooms or more

- 102,825 hotel rooms in Ontario
- Direct employment is approximately 62,000
- More than \$1.8 billion in employee wages and benefits
- The accommodation industry contributes over \$1.5 billion in taxes annually to all levels of government

State of the Industry

Ontario's hospitality industry continues to face a series of events outside the industry's control such as escalating energy costs, current and future passport requirements at the U.S. border, and an increased Canadian dollar. Unusual weather patterns throughout 2005 and 2006 altered tourism patterns, and the industry still feels the effects of both 9/11 and SARS.

While Canada's foodservice industry saw moderate growth in 2005 and 2006, Ontario's sales growth lagged the rest of the country. However, an increase in operating costs has resulted in Ontario's foodservice industry having the lowest industry profit margins in the country.

Accommodations occupancy rates for the first ten months of 2006 was 65%, a slight increase over 2005 but still below 2001 levels.

In 2006 U.S tourism has declined in all categories, day trips, overnight, leisure and business. In fact, according to the Conference Board of Canada, the rate of decline in U.S. day trips this year paralleled the rate of increase in the value of the Canadian dollar. Although tourism projections indicate a slight increase in American tourism to Ontario over the next four years, 2008 estimates (25 million) remain lower than 2001 statistics, We must now also take into account the changes in tourism patterns that will result from the Western Hemisphere Travel Initiative's passport requirements.

In the third quarter of 2006, Ontario's travel deficit fell to \$253 million, a 12% decrease over the same quarter of 2005. Canada's deficit, meanwhile, decreased 51% to \$576 million. The travel deficit is the difference between what Canadian residents spend abroad and what foreigners spend in Canada.

The hospitality industry, almost completely dependent on consumer confidence and discretionary spending, is one of the first industries to experience the swings in the economy.

ISSUES

Tourism

Tourism Marketing

The ORHMA is grateful for the recognition of the tourism industry's contribution to Ontario's economy, as presented in the 2006 Fall Economic Statement. The ORHMA looks forward to working with the Ministry of Tourism and the Ontario Tourism Marketing Partnership Corporation (OTMPC) to develop a domestic tourism campaign, as over 2/3rds of Ontario's tourism is domestic.

International tourism to Ontario has struggled over the last six years due to a number of impacts such as 9/11 and the resultant border delays, SARS, the increased Canadian dollar, heightened fuel costs, and consumer confusion over passport requirements. The Canadian tourism industry is now also facing the possible elimination of the federally mandated GST Visitor Rebate Program which, if eliminated, would increase the price of travel to Canada by 6% for both pleasure and business travelers as well as tour group and convention business.

20% of Ontario's tourism market comes from the U.S., representing 2/3rds of Ontario's foreign tourism market, and it is no secret that this segment in particular has seriously declined over the years. In October 2006, total international border crossings to Ontario, from both overseas and the U.S., declined by over 14.6% over October 2005 to only 1.3 million. This is the result of a 15.9% decrease in U.S. border crossings, and a 2.9% decrease from overseas entries.

It is significant to note that in the first ten months of 2006 border crossings from the U.S. into Ontario decreased by 10.1% over the same period of 2005, almost 42% fewer entries from the U.S. compared to the same period in 1999. While entries to Ontario from overseas increased by 0.7% in the first ten months of 2006 over the same period of 2005, this is 21% lower than the same period in 1996.

Dedicated investment in tourism marketing is fundamental to the success of the tourism and hospitality industries. The OTMPC, an agency of the Ministry of Tourism, works collaboratively with the private sector to promote Ontario as a four-season destination through the development of research-driven campaigns.

Marketing campaigns are most successful and beneficial when developed on research findings, as witnessed by the post-SARS Tourism Revitalization Program of 2003 and 2004, administered through the Ontario Tourism Marketing Partnership Corporation, which returned up to \$11 on every dollar invested.

- **The ORHMA recommends a permanent additional investment of \$20 million annual funding in each of two years for the Ministry of Tourism, through to the Ontario Tourism Marketing Partnership Corporation to be able to undertake dedicated tourism marketing campaigns geared toward identified key target markets, particularly in the U.S.**

Western Hemisphere Travel Initiative

In an effort to address security issues the United States has implemented the Western Hemisphere Travel Initiative (WHTI). The WHTI requires all travelers, including American citizens, to have a passport to enter the U.S. when traveling by air, effective January 23, 2007. Those entering the U.S. by land or sea will be required to present a valid passport or an approved alternative document by June 1, 2009 at the latest. The American government has announced the approval of a People Access Security Service, or PASS card, as an alternative to the passport.

Currently only 35% of Canadian residents and 25% of American residents hold a valid passport. Research also shows that 33% of Americans and 42% of Canadians currently believe that passports are already required to travel between Canada and the U.S.

Given that fewer American than Canadian travelers hold valid passports, the negative impact is expected to be larger for U.S. travel to Canada. In fact, from 2005 to 2008, it is estimated that the number of U.S. arrivals in Canada would decline by 7.7 million as a direct result of the new passport regulations. The bulk of the shortfall is expected to come from same-day trips (5 million). In 2005, the new passport regulations are expected to reduce visitation by about 1%; however, by 2008, full implementation of the passport rules could decrease potential U.S. visitation by 12.3%. This is compounded by the fact that the original implementation deadline for travel by air have been changed multiple times, and the implementation deadline for land and sea continues to be a fluctuating deadline. This has resulted in mass consumer confusion.

U.S. visitors to Ontario currently account for approximately 90% of international tourism to Ontario. The Conference Board of Canada recently forecasted that over a three year period Ontario alone will lose \$859 M in tourism revenues from the United States, resulting in the loss of 7,000 jobs.

The ORHMA appreciates the efforts thus far of the Premier and the Minister of Tourism in representing the interests of Ontario and its citizens, and respectfully submit that it is essential that the Ontario Government continue to be an active participant in discussions concerning possible future types of identification.

- **The ORHMA urges the Government to work closely with the United States government to continue to discuss and implement alternative secure documents for entry to the U.S.**

Destination Marketing Fees

Another effective method of supporting tourism marketing is through Destination Marketing Fees (DMFs). The ORHMA supports industry-initiated Destination Marketing Fees to help the tourism industry toward its goal of attracting tourists and tourist spending and achieve economic renewal. The ORHMA supports a DMF based on the following principles:

- Voluntary, industry-led and initiated decision
- That funds generated be dedicated to destination marketing and tourism promotion
- That the amount of the DMF not exceed 3% of the cost of a hotel room
- That the DMF be transparent and clearly indicated on customer billing

Destination Marketing Fees have proven to be an effective tool to generating dedicated tourism marketing funds. For this reason the ORHMA supports the government's decision to not grant municipalities the authority to levy a hotel room tax.

The ORHMA was pleased that the 2004, 2005 and 2006 Provincial Budgets exempted the Destination Marketing Fee from retail sales tax, although each for only one year. With a positive return on investment DMFs generate increased direct and indirect revenues with a greater economic impact than retail sales tax. For this simple reason the ORHMA recommends that the Government make permanent the retail sales tax exemption on Destination Marketing Fees.

- **The ORHMA recommends that the RST exemption on DMFs be made permanent.**

Taxation

Municipal Liquor Tax

The ORHMA was pleased to that under the City of Toronto Act a hotel room tax was expressly prohibited, and similarly, under the Municipal Act cities were not granted powers of taxation. The ORHMA has serious concerns however with the decision to grant powers of taxation to the City of Toronto, and specifically, the power to levy a direct retail sales tax on the purchase of liquor.

The two segments of the industry that will be impacted by an additional tax on liquor are full-service restaurants and the bar, tavern and nightclub sector. These two segments have each respectively seen a slow down in sales growth, with sales growth lagging the rest of Canada. With operating margins at only 1.9% and 0.9% respectively, the industry is not sustainable and will be detrimentally impacted by a fourth tax line on a customer's bill.

Operators already pay more than \$200 m 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. An increase in tax will undoubtedly directly reduce sales, lower operating margins and jeopardize thousands of jobs in Toronto's licensee community. The revenue generated will not assist the City of Toronto but will devastate the industry, and will close doors and cost jobs.

- **The ORHMA recommends the revocation of the City of Toronto's authority to levy a liquor tax.**

GST/PST Harmonization

The issue of GST/PST harmonization continues to be debated within government and among the business community. The hospitality industry, to be clear, is opposed to the harmonization of these taxes. Unlike other provinces where harmonization has resulted in a net savings for taxpayers, in Ontario, a 14% rate would only replicate the status-quo of the combined rate of the 6% GST, and the existing 8% provincial retail sales tax. Harmonizing the tax would not only cost the same amount on products that already attract 14% tax, but would increase the tax for many products and a host of services that are currently PST-exempt.

Harmonization of the PST in Ontario with the GST would add 8% to the cost of meals in this province that are under \$4.00. Three years ago, Ontario consumers told this government that it was not prepared to accept a new 8% tax on basic meals. Harmonizing the PST and GST would simply be taxing these meals using a different mechanism.

- **The ORHMA recommends that the provincial government maintain its made-in-Ontario sales tax system and not harmonize the GST and PST.**

Capital Tax

Canada is one of the only major industrial economies where capital taxes are levied. The ORHMA has found that Ontario's capital tax hurts investment, especially since

comparable jurisdictions are not instituting such a tax. Furthermore, since the capital tax is a profit-insensitive tax it directly discriminates against capital-intensive companies.

Hospitality businesses require a tremendous amount of initial capital investment in order to establish an operation. As a result, having a tax levied on a business' capital results is a disincentive to invest, reinvest and expand in our industry.

In 2003 the ORHMA recommended the elimination of the capital tax, and the government responded by announcing a reduction of the capital tax rate by 10 per cent the following year, with an intention to eliminate the capital tax by the time the federal government eliminates its capital tax. The ORHMA welcomed this decision, but the fact of the matter remains that capital tax is a serious hindrance to business.

In any decision to eliminate the capital tax the Government of Ontario must ensure that, since capital tax is a deductible expense, the Federal Government does not receive a tax windfall at the expense of Ontario businesses.

- **The ORHMA recommends that the Government of Ontario fully eliminate the capital tax, and negotiate an appropriate arrangement with the Federal Government.**

Beverage Alcohol

Deposit-Return Program for LCBO Containers

On September 10, 2006 the government announced the inauguration of a universal deposit-return program for LCBO containers, to begin February 5, 2006 and to be operated solely by the Brewers Retail Incorporated. The ORHMA has been working with government to assist in its implementation. However, our industry will experience considerable economic costs based on additional labour, disposal and storage requirements as well as lost deposits due to non-redemption. The total annual cost to Ontario's hospitality industry of the deposit-return program is estimated to be \$82.5 million, a cost the industry cannot sustain. For example, in four short years according to Statistics Canada, industry profit margins in Ontario have plummeted to 1.9% from 5.9% for full service restaurants and, for bars, taverns and nightclubs plunged to 0.9% from 6.5%. Sales comparing January to October 2006 to 2005 are up only 1% for full-service restaurants declining 7% for the bar, tavern and nightclub sector. These sales figures have not been adjusted for inflation.

The ORHMA is looking for relief to compensate for its sizeable economic loss through government instituting a true wholesale pricing regime for licensees equivalent to that provided the LCBO's agency store system, removal of the remainder of the gallonage fee (now an LCBO mark-up), plus elimination of the environmental levy. As the Brewers Retail Incorporated stands to gain an annual profit of up to \$19 million from the deposit-return program, partly on the backs of our industry, the ORHMA looks to BRI to provide licensees the use of credit cards for their beer purchases (as has been the case at the LCBO since 1998) as well as wave any fees charged to licensees for additional trips by BRI to pick up empty wine and spirits containers.

- **The ORHMA recommends that the hospitality industry be compensated for all costs resulting from the implementation of the deposit-return program through a variety of means, including the elimination of the gallonage fee, the elimination of the environmental levy, the introduction of a wholesale pricing regime, and licensee credit card use at Brewers Retail Incorporated.**

Liquor Licence Act Review

The ORHMA has been key in representing Ontario's hospitality industry through written submissions and roundtable discussions during the government's review of the Liquor Licence Act and its regulations. The ORHMA is pleased that the government has adopted its recommendation on the use of fines as an administrative penalty in lieu of licence suspensions that was among the recent Liquor Licence Act amendments found in Bill 152. Government is continuing its review of Ontario's liquor laws to flesh out the details around the recent Act amendments as well as to consider further recommendations - many of which have been originated from the ORHMA. Government has invited the ORHMA to participate in these continuing stakeholder discussions and we look forward to providing our assistance and feedback in streamlining Ontario's liquor laws.

Labour

Ontario's hospitality industry currently employs more than 415,000 Ontarians, and allocates more than 30% of operating costs to labour.

Labour Shortage

Ontario's tourism and hospitality industry workforce, at more than 415,000 employees, represents 37% of the entire tourism and hospitality industry workforce across the country. Currently, 53% of employees are under the age of 35, with one third of the industry labour force between the ages of 15 and 24. It is estimated that over the next ten years Ontario's tourism and hospitality industry will create 133,000 new jobs, however it is further predicted that employers will struggle to fill the vast majority of these positions.

Like many other service industries the tourism and hospitality industry is currently experiencing a shortage of both skilled and unskilled labour due to demographic factors such as birth rates and immigration patterns and the migration of industry workers to explore options in Alberta's job boom and the upcoming Vancouver Olympics.

The industry must focus efforts and resources on existing opportunities such as Ontario's youth participating in co-operative education programs or apprenticeships, as well as untapped labour pools such as persons with disabilities.

Cooperative Education

The ORHMA appreciates all efforts and opportunities for Ontario's youth to explore different aspects of the tourism and hospitality industry, ranging from career fairs to the new Specialized High Skills Major initiative (SHSM), and co-operative education opportunities. ORHMA members however have raised concerns with the ... and in order to encourage and support many smaller operators in welcoming co-op students and providing meaningful educational and career building opportunities

- **The ORHMA recommends a joint project, in partnership with the Ministries of Education and Training, Colleges and Universities, to host an industry-specific symposium with hospitality industry leaders with educators to develop an industry standard to improve co-op experiences. Such a standard will assist both students and employers in both the co-op experience as well as post co-op employment.**

Apprenticeships

The simple fact of the matter is that it is more expensive to train an apprentice than it is to employ a certified tradesperson. The government has thus far focused its attention on post-secondary institutions and individuals looking to work in the trades, but must recognize employers as a valued and equal partner in the equation.

The 2004 Provincial Budget announced the creation of an Apprenticeship Tax Credit, which was limited to certain industry trades, and includes 113 eligible apprenticeships, yet surprisingly, and without explanation does not include the hospitality sector.

- **The ORHMA recommends that the Government amend the Apprenticeship Tax Credit to include apprenticeship positions within the hospitality**

industry, including cooking/culinary management, and that the Government extend the Apprenticeship Tax Credit beyond 2008.

Persons with Disabilities

The ORHMA is currently working with the Ministry of Community and Social Services (MCSS) and WCG International HR Solutions (WCG) to develop an employment program pilot project for persons with disabilities, focused on the hospitality industry. With the support of MCSS the ORHMA and WCG can provide up to 4,000 workplace opportunities for persons with disabilities in different segments of the industry.

The program would involve the screening and training of candidates, job placement and subsequent workplace accommodations or job modifications, training subsidies for employers, and workplace supports to encourage job retention.

- **The ORHMA recommends that the government provide financial support to implement the ORHMA employment program pilot project for persons with disabilities focused on the hospitality industry.**

Minimum Wage

When the Government announced in the 2004 Budget a four-year phased in increase to the minimum wage the ORHMA was pleased that the wage differential for liquor servers, who have access to gratuities, was maintained.

The ORHMA is aware of continued discussion within government regarding possible future increases, and in particular a great deal of discussion regarding raising the general minimum wage from \$8 to \$10 an hour. Such a move would result in reduced hours and possibly layoffs for many workers, and in worst case scenarios would result in the closure of some small businesses. Hospitality operators are struggling with lowered operating margins, increased utilities costs and changes in tourism patterns, and simply cannot sustain yet another increase in minimum wage costs until industry conditions have improved.

- **The ORHMA respectfully recommends that as labour costs currently account for more than 30% of hospitality industry expenses, and as the hospitality industry cannot sustain continued increases under the present economic circumstances, minimum wage not be increased in this industry until conditions have improved.**

Energy

The ORHMA continues to hear serious concerns from members about ever-increasing energy costs. 63% of the foodservice sector is independently owned and operated, and small and medium sized businesses do not have access to capital funding to upgrade their facilities in order to reduce energy consumption and costs.

Under the Regulated Price Plan, the cost of electricity for eligible businesses is 5.5 cents per kilowatt hour for the first 750 kWh each month, and 6.4 cents kWh beyond that threshold. The vast majority of our members however are above the usage threshold for Regulated Price Plan, and pay market rate for electricity.

The ORHMA has been working with the Ontario Power Authority and its Conservation Bureau to help our members learn of new and innovative ways to conserve energy and reduce costs.

- **The ORHMA recommends that the government establish a rebate or savings program for large energy users who reduce consumption rates to assist with capital upgrades while meeting government's goal of reducing energy consumption.**
- **The ORHMA recommends that the government establish a capital grant program to assist small and medium sized businesses, who do qualify for the Regulated Price Plan, to make investments in energy conversion or conservation technology.**