



Support Voluntary Employer-Based Paid Leave Benefits “One-Size Fits All” Mandates Do Not Work for Small Businesses

POSITION: Hospitality Minnesota supports allowing small businesses to maintain flexibility in providing competitive paid leave benefits packages to employees. While we believe the goal of providing the best possible benefits to all workers—including paid leave—is laudable, a one-size-fits-all mandate does not work for our small business operators. A better approach would be for the government to work collaboratively with small businesses to find ways to provide incentives and support so that small businesses are able to afford such programs.

Hospitality employers value their employees immensely. Many of our members provide paid leave benefits and/or other benefits such as health care coverage, free or reduced meals, employee wellness programs, etc. These practices are becoming more common as businesses compete to recruit and retain great employees. Even so, many small hospitality businesses operate on *extremely thin margins*. The average margin for restaurants is 2-5%, compared to 10% in other industries. (It is widely reported that up to 60% of restaurants do not survive their first year, and 80% do not survive year five). It should take all of our collective effort to help small businesses grow more jobs and be successful in Minnesota. Although small businesses want to do the right thing to support their employees, the financial burden is significant, and many can simply not afford to offer more paid benefits at this time.

Flexibility. Flexibility is a key requirement for both employers and staff in the hospitality industry. Some businesses have sharp operational peaks and make extensive use of part-time, seasonal and international workers. Some businesses employ high-school and college-aged students working part time. Some employ adults working full time to support themselves and adults working one to two shifts per week for extra spending money. It is common practice in this industry for employees to trade shifts when an illness or other reason precludes them from working.

We believe that allowing small businesses to maintain flexibility in providing paid leave benefits to employees is critical given the wide-ranging operational differences in hospitality businesses. A few examples for consideration include:

- Some entities have sharp seasonal peaks and make extensive use of part-time, seasonal and international workers.
- Some businesses employ high school and college-aged students working part time. They also employ adults full time to support themselves, and adults working one or two shifts per week to earn extra spending money.
- It is common practice for hospitality employees to trade shifts when an illness or other reasons keeps them from working their scheduled shift.

- The majority of employers have standard protocols and best practices in place to appropriately address worker illness and leave situations and the need for flexibility to staff their operation on short notice.

Cumulative Effect. The cumulative effect of COVID has made it much more difficult for hospitality businesses to remain viable. The workforce shortage has made them hyper-attuned to what they need to offer to recruit and retain the team that will help them stay in business. While many hospitality businesses already provide paid family and medical leave benefits, rising wages due to the workforce shortage and other cost increases due to inflation suggest a one size fits all mandate will pose a challenge for many of our businesses. We see evidence of the fragile state that many businesses are in by the number of closures that continue to occur. Given the thin operating margins, so many variable and uncontrollable forces are especially pronounced for small hospitality businesses. This is why proposals to increase the payroll tax and add another administrative burden have the potential to push a small business to closure.

Survey data from Hospitality Minnesota, Explore Minnesota Tourism and the Federal Reserve Bank of Minneapolis found that due to COVID:

- 66% of restaurants took on debt averaging \$552,659.
- 55% of hotels took on debt averaging \$723,685.

The federal government and other states have paid leave programs that recognize the delicate nature of small business survival. For instance, the federal FMLA exempts employers with less than 50 employees as does Connecticut's paid sick leave program. Other states have passed paid leave programs that rely upon workers to pay for all or the majority of their premium. These policymakers recognize the critical tipping point that many small businesses face.

SUPPORTING STATEMENTS

- Hospitality Minnesota favors an "opt-in" approach to create a workable paid leave program and the State of Minnesota should work collaboratively to support small businesses by allowing them to maintain flexibility in offering volunteer paid leave benefits to their employees.
- If the government determines that it's in the public interest to expand *employer*-based paid leave, it should develop business incentives, such as tax credits or other expense management tools that will help small businesses afford to offer paid leave benefits, while still remaining viable in the marketplace.

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