Hospitality MINNESOTA

THE LODGING, RESTAURANT, RESORT AND CAMPGROUND ASSOCIATION

February 06, 2023

The Honorable Michael Nelson, Chair
House Labor and Industry Finance and Policy
585 State Office Building
St. Paul, MN 55155

The Honorable Joe McDonald, Republican Lead
House Labor and Industry Finance and Policy
241 State Office Building
St. Paul, MN 55155

Dear Chair Nelson, Republican Lead McDonald and Members of the Committee:

At Hospitality Minnesota, we support industry best practices to achieve the goal of a healthy workforce, and we appreciate the opportunity to weigh in on our shared goal while considering the policies that will guide paid family and medical leave in Minnesota's hospitality businesses. The policies that support that goal should help hospitality employees maintain their income when they miss work due to family care or medical needs, without creating an undue or uneven financial burden on employers.

Hospitality Minnesota supports allowing small businesses to maintain flexibility in providing competitive benefits to employees. While we believe the goal of providing the best possible benefits to all workers – including paid family and medical leave – is laudable, a one-size-fits-all mandate does not work for our small business operators across Minnesota due to the vast differences in hospitality business models.

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.

As drafted, HF2 would allow an employee to be away from their job for up to 24 weeks each year, meaning an employee may be out 44% of the working year with reinstatement rights. There is a need to provide clarity as to how HF2 language would align with existing Family Medical Leave Act (FMLA) and other programs, such as proposed earned safe and sick time. For seasonal businesses (operating 7 or fewer months annually) or year-round businesses with seasonal variations, it means an employee could be out on paid leave for nearly the entire season at the employer's expense. In a time when the industry is experiencing significant worker shortages, this presents a more challenging environment for employers, workers and customers alike.

Additionally, HF2 does not provide for a cap on the payroll tax – presenting a challenge for some of our small businesses when it comes to adequately preparing their business for the future. The payroll tax rate has already increased from 0.6 percent to 0.7 percent, and businesses may not know what to prepare for after January 01, 2026. Hospitality is, perennially, a thin-margin industry, with many businesses operating on a margin of 2 – 5%. Current conditions – workforce challenges, rising costs due to inflation, supply chains issues – are already hampering their recovery from the significant blow of the pandemic. The lack of a cap and the uncertainty that goes with that places further constraints on what is already a fragile recovery as the hospitality industry works to dig out of debt and return to normal levels of business following COVID closures. Adding another financial and administrative burden is significant and something many simply cannot afford to do.

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 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 suggest a one size fits all mandate will pose a challenge for many of our businesses.

Finally, we encourage the committee to review paid family and medical leave policies put in place by other states. For example, in Delaware, businesses that are closed for more than 30 consecutive days in a year are exempt from the program. Additionally, employers with less than 10 employees are exempt and employers with 10-24 employees are only required to participate in the parental leave program. These policies offer more flexibility to small and seasonal businesses, which would benefit Minnesota's hospitality industry.

We look forward to working with you to craft a policy that is flexible for various types of business models and commit to serving as a resource for you. Please don't hesitate to call on us if we can provide any additional information.

Sincerely,

Liz Rammer

Liz Rammer, President & CEO
Hospitality Minnesota