



Testimony of John Longstreet
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Senate Labor & Industry Committee
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Good morning, Chairwoman Baker, Chairwoman Tartaglione and members of the Senate Labor & Industry Committee. Thank you for allowing me to testify today—my name is John Longstreet and I am the President & CEO of the Pennsylvania Restaurant & Lodging Association (PRLA). The PRLA is proud to represent 2,600 members with more than 7,000 businesses across the commonwealth.

Today's hearing is important. The discussion of minimum wage is a hot topic, not only across the country, but in the state of Pennsylvania. With that being said, the PRLA is in a unique position as it pertains to this conversation. My colleagues sitting with me today will go into plenty of detail about the impact of minimum wage, but I would like to focus on a different part of the debate—one that is commonly misunderstood and not often discussed—the tipped wage credit.

The restaurant industry is an industry of opportunity—a fact that we are proud of. One in three Americans had their first job in our industry—in fact—I am sure many of the people in this room at one point worked in a restaurant. We employ 10 percent of the population in the state and 80 percent of managers and owner/operators in our industry started out in entry level positions such as dishwashers or servers. People stay in this industry because they love it—and many of those people are currently—or have in the past made a large part of their income through tips.

Opponents of the tipped wage credit tend to say that servers only make \$2.83/hour—that \$2.83 an hour is all they bring home at the end of a shift. Federal wage and hour laws make that illegal and it is most assuredly not the case. The tipped wage in the service industry is like every other job in every other industry—every single employee has to make *at least* minimum wage. Our industry is so popular, because servers, on average, make \$16/ hour. Let me explain how that works.

Under federal law, a tip credit is allowed for any individual who makes over \$30/month in tips. Tips, also known as gratuities, are given to a person for service. When a server earns a tip that is their property. At the end of every shift, servers claim the amount of tips they receive and the business pays taxes on those tips. This practice not only allows servers to earn well above what a restaurant (or any other business) would be capable of paying them, but ensures that other non-tipped employees are fairly compensated for the work they perform.

This leads me to the impact an increase in the tipped wage would have on the hospitality industry. Restaurant on average, make a 4 percent profit margin. The cost of food and labor are the highest

percentage of our costs. An increase in the tipped wage does nothing more than hurt the people it is intended to help. It would have the following impact on our industry:

- By increasing the tipped wage, the increase in labor cost affects the ability to compensate those back of the house employees that don't earn tips. So instead of being able to pay our cooks/dishwashers a higher wage, we will be paying a higher wage to the servers who are already making much more than the other employees.
- At the end of the day, our members have to find a way to survive—technology would be the solution. We are already seeing tablets on the tables at restaurants—with this assistance—a server can work 6 – 8 tables instead of 4. More and more we see counter-ordering and a “runner” bringing the order to the table. These are some of the items that our industry will do to survive if an increase in the tipped wage occurs—less employees in the long-run—just so a business can survive.

As I mentioned earlier, tipped employees have to be paid minimum wage. If the minimum wage were increased to any amount and a server did not earn enough in tips to reach that minimum wage—the business makes up the difference.

Some businesses in our industry have eliminated the tipped wage and have taken a route of paying their employees a flat rate per hour. They certainly have the right to do so, but at the end of the day, every business is different and not everyone can operate with that type of system. In the long run, if the tipped wage rises or is eliminated—prices will be raised and restaurants and many will have a “no-tipping policy” or have a “service fee” added on to the check to cover the increased cost in labor. We are already seeing that in places like Seattle and San Francisco. We are also seeing even more of those businesses close because of the increased cost of doing business in those cities. Our industry is one where if you work hard you will move up. Tipped positions are popular because of the fact that you can be as successful as you want, and earn a lot of money in a short period of time. This allows tipped employees the time to put themselves through school or raise a family.

At the end of the day, everyone has to make the minimum wage—whether it is \$7.25, \$9.00 or \$12.00—even tipped employees. By increasing the tipped wage, you are achieving nothing other than hurting the industry that has given opportunity to so many, and causing those employees who are making good money to make less.

Thank you for allowing me to testify before you today and I am happy to answer any questions.