



The Honorable Jim Davnie
House of Representatives
443 State Office Building
St. Paul, MN 55155

Dear Representative Davnie:

I write regarding HF104 and to express Hospitality Minnesota's concerns about the impact and timing of the bill, especially now with so many restaurants facing financial collapse due to the pandemic and related shutdowns.

According to our recent survey conducted with the Minneapolis Federal Reserve Bank, nearly half of restaurants fear they will face insolvency in the first quarter of 2021 without additional financial help. Given that our hospitality industry employs one-in-ten Minnesotans, this is significant financial crisis with 116,000 jobs lost over the past year.

Even in normal market conditions, most restaurants operate on extremely thin margins averaging 2-5% (unlike other small business which average margins of 10%). Currently, many are operating at a loss and are certainly not in a position to take on additional costs or mandates at this time.

HF104 proposes to prohibit businesses from passing on credit card processing fees on tips to the employees who benefit from such tips. Credit card processing fees often cumulatively range between 2-3% of a given transaction. Currently, Minnesota law allows restaurants and other businesses to pay their fair share by paying for the 2-3% fee on a given food/beverage tab and requiring the tipped employee to cover the 2-3% processing fee on the amount of the tip.

There is a real cost to process transactions electronically. Minnesota's current policy (one shared by nearly every other state in the country) acknowledges this fact. Asking a server to cover the credit card processing fees on the tips they receive is akin to paying processing fees in order to use your ATM card or process other electronic transactions. As a matter of fairness, it seems reasonable that the employee would share in his/her portion of the cost to be able to access the benefit of receiving a credit card tip.

While some of our members currently choose to cover their employees' credit card processing fee costs as an added benefit to their employees, not all restaurants are financially able to absorb this cost. This should be taken into account as the cost to restaurants can be significant. As an example, to illustrate the order of magnitude, one restaurant indicated to me that in one year it processed \$491,824 in credit card tips, which at 2% in processing fees equates to an additional \$9,836 in costs that the restaurant receives no direct benefit from. The restaurant analyzed 15 of their tipped employees (including the 5 servers with the highest hours, 5 servers with the lowest hours—typically newer employees—and 5 bartenders) over a six-month period. The average employee from the cohort would translate to: 471 hours, \$7,912 in tips and an average hourly rate of \$26.45/hour (tips and wages combined). The average paid in fees to process their credit card tips at a 2% rate would be \$158.24 over the six-month period.

Given the totality of the circumstances being faced by a fragile hospitality industry, a more acceptable solution to the outright ban proposed in HF104 would be to require businesses to clearly disclose their policy to their customers. Members we have talked to indicate that they already disclose their policies clearly to

their employees and that they work in a collaborative manner to find the best balance that meets the needs of their employees, while keeping their business sustainable. The restaurant members we have spoken with are dedicated to being transparent with their employees.

I thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Liz Rammer". The signature is fluid and cursive, with a long horizontal stroke at the end.

Liz Rammer
President & CEO