



Testimony on Proposed Ordinance 02023-0002995

Before the Chicago City Council

Committee on Workforce Development

By Mike Whatley

On Behalf of the National Restaurant Association

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Chairman Rodriguez and members of the Committee, thank you for the opportunity to testify today about the damage eliminating the tip credit will inflict on the Chicago restaurant scene and the cautionary tale to be learned from a city currently upended by this process. My name is Mike Whatley, and I am the Vice President of State Affairs and Grassroots Advocacy at the National Restaurant Association. Our Association works closely with our state restaurant association partners, like the Illinois Restaurant Association, to represent restaurants of all sizes and concepts across the country. The National Restaurant Association has an office in Chicago and the National Restaurant Association Show has proudly called Chicago its home for over six decades.

Any legislation that eliminates the tip credit—regardless of the timeline for phasing it out—will harm tipped employees, customers, restaurant operators, and the city as a whole. The rude truth is that tip credit elimination is not a raise for servers.

The current tip credit system in Chicago works and provides employees with high earning potential. Most tipped employees earn well above the minimum wage, with the average tipped employee in the state of Illinois earning \$28.48 per hour, which is higher than the national average. However, all employees are guaranteed the full minimum wage every shift, regardless of their tips. The current tipping system enables operators to keep costs in check and provide customers the world-class dining experience the Windy City is known for at an affordable price.

The proposed ordinance represents a 15-20% labor cost increase for the typical Chicago operator. Restaurants—in the best of times—are a low margin business with an average profit margin of 3-5%. Taking on a minimum of 8% higher labor costs each year over the next five years, on top of higher food costs, rising rent, and even increasing credit card swipe fees, will strain neighborhood restaurant operators across the city. Operators simply cannot absorb this kind of increase and they will have to act to survive.

According to a recent study by CorCom and the Illinois Restaurant Association when faced with the proposed ordinance:

- 80% of operators will raise menu prices
- 66% of operators will reduce staff or consolidate positions
- 58% will reduce employee hours
- 46% will institute automatic service charges
- 36% will open future locations in surrounding jurisdictions
- 26% will close one or more locations¹

The proposed ordinance will force customers to dine out less frequently thereby harming restaurants, employees, and the vibrancy of the city. According to a new survey of frequent Chicago diners from Morning Consult, when faced with a 15% menu price increase or service charge:

- 48% are more likely to tip a smaller amount
- 44% are more likely to dine outside of the city
- 53% are more likely to dine at home²

In the best of times, a restaurant needs a full dining room to survive. If Chicago restaurants start losing customers to the suburbs or people begin dining at home more often, restaurants will suffer. Operators will put off expansion or choose a location outside the city instead, others will reduce employee counts, and still others will close entirely causing not just their tipped employees, but also their staff not impacted by this ordinance, to lose their jobs. Chicago's vibrant dining scene and the dynamic life of their unique neighborhoods will suffer.

Washington D.C. as a Cautionary Tale

These impacts are not hyperbole or hypothetical; we are seeing the results of tip credit elimination firsthand in Washington, D.C. Last year, voters passed Initiative 82 to become the first jurisdiction in over 20 years to eliminate the tip credit. The elimination began phasing in four months ago, and already the results are bleak.

Among operators:

- 80% plan to raise menu prices
- 70% plan to institute service charges
- 72% plan to reduce staff
- 70% plan to reduce employee hours
- 46% plan to open future locations in the suburbs
- 31% plan to close one or more locations³

¹ Lloyd Corder, "Impact of Eliminating Tip Credit for Chicago Restaurants," CorCom, Inc. August, 2023.

² Morning Consult, "Tipping Behaviors in Chicago." August 31, 2023. Survey based upon 1201 adults in Chicago region.

³ Lloyd Corder, "The Impact of Initiative 82," CorCom, Inc. April 2023. Available at: https://epionline.org/app/uploads/2023/04/Impact-of-Eliminating-Tip-Credit-for-DC_4-25.pdf.

The D.C. dining scene—already expensive compared to other markets—has become even more expensive and service charges have proliferated. According to recent research, because of higher menu prices and service charges, 52% of frequent diners are eating at home more often, 43% are eating out less often in general, and 32% are dining outside of the city (in the suburbs) more often.⁴ Much like Chicago, D.C. is surrounded by other jurisdictions which have not eliminated the tip credit, meaning that diners have high quality, more affordable options when looking to eat out at a restaurant. Customers have become so confused and irritated by the new service charges and menu price changes that there is a movement calling on the D.C. government to fund a public service campaign to explain what is happening.

Conclusion

Thank you for this opportunity to provide written testimony about this legislation. Running a restaurant is hard, hands-on work. It's not an industry that anyone chooses lightly, but every operator in Chicago is dedicated to making the Windy City exceptional. The current tip credit system is essential to that goal because it allows operators to employ exceptional servers; it ensures that tipped servers have a higher earning potential than the minimum wage alone; and it keeps the cost of dining out manageable for customers.

If the Committee believes there are aspects of the current tip credit system that need changing, the National Restaurant Association and our members encourage the Committee to slow this legislation down so that we can have a thoughtful discussion about how we can work together. We are committed to working with the Committee and the entire Council on ways that we can continue to strengthen Chicago's restaurant industry for our employees, customers, neighborhoods, and operators.

⁴ Morning Consult, "Tipping Behaviors in Washington, D.C.," September 7, 2023. Survey based upon 944 adults in D.C. region.