



## Wage, Benefit and Operational Data on Seattle Restaurants

This data contained in this document comes from a survey completed by over 400 restaurant locations inside the city of Seattle. It was conducted by the Washington Restaurant Association during the first quarter of 2014. There were more than 200 full service and 200 quick service restaurants that responded. The full report will be released April 15, 2014. The purpose of the survey was to respond to the mayor's office and many city councilmembers who requested Seattle-specific information about the restaurant industry and our workers.

Respondents were asked to calculate tip data by using Line 4b of IRS Form 8027 divided by total server and bartender hours. By doing this, we are only including reported net tips (after any tip-outs) on which employers are required to pay payroll taxes. To view IRS 8027, see [www.irs.gov/pub/irs-pdf/f8027.pdf](http://www.irs.gov/pub/irs-pdf/f8027.pdf).

### Small Margins

It is difficult for restaurants to turn in a profit. As of 2013, Seattle full service restaurants had an average net income of four percent before taxes.

### Heavy Debts

Fifty-eight percent of an average restaurant's annual total revenue equals debt service. Sixty-two percent of restaurants that responded to WRA's survey did not earn enough profit, in 2013, to meet fundamental capital investment "pay off" plans.

### Findings from Wage Survey

Directly tipped employees, such as bartenders and servers, average more than \$28 in hourly income. In Seattle, the average hourly tipped income for servers and bartenders equals \$18.82 per hour according to tax data from line 4b of IRS Form 8027. Add wages on top of that income and it's easy to see why servers and bartenders are not minimum wage employees.

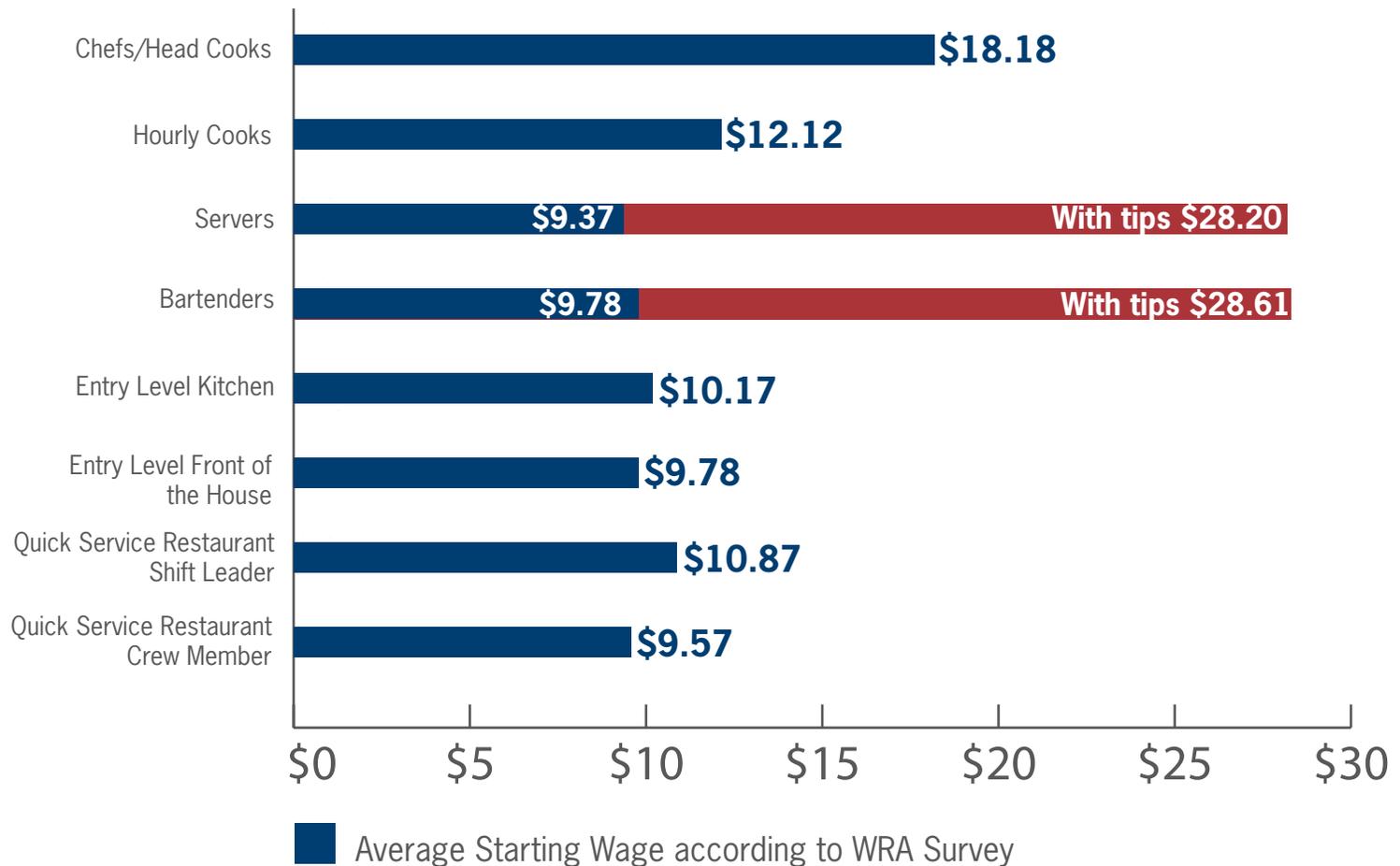
### Impact of \$15 Minimum Wage on Labor Costs

If the minimum wage jumps to \$15 per hour, the effects of this mandate would be far reaching. The cost of labor, in restaurants would increase an average of 34 percent, moving the cost of labor to 47 percent of the restaurant dollar. This minimum wage increase would lead to annual operating losses of under existing models. No business can sustain such losses. Restaurants would need to make big changes in order to survive.

### Unintended Consequences of \$15 Minimum Wage

Some restaurants would respond by raising prices. Fifty-five to 69 percent of restaurants in the survey would reduce benefits and/or hours. Eighty percent of the full service respondents would either lay off employees, close a location, declare bankruptcy or close their business.

## Starting Wages



## Benefits

	Health Care Offered	Retirement and/or Education Benefits Offered	Provide Meals Free (not discounted)	Average Tenure
Chefs/Head Cooks	76%	45%	84%	5.40 Years
Hourly Cooks	64%	46%	83%	3.32 Years
Servers	64.3% (note many said "full-time only")	40.3%	48%	3.35 Years
Bartenders	62% (note many said "full-time only")	39%	45%	3.68 Years
Entry Level Kitchen	66.7	42%	84.5%	2.36 Years
Entry Level Front of the House	63.6%	40%	49%	1.77 Years
Quick Service Restaurant Shift Leader	69%	40%	89%	3.66 Years
Quick Service Restaurant Crew Member	48%	37%	84%	2.66 Years

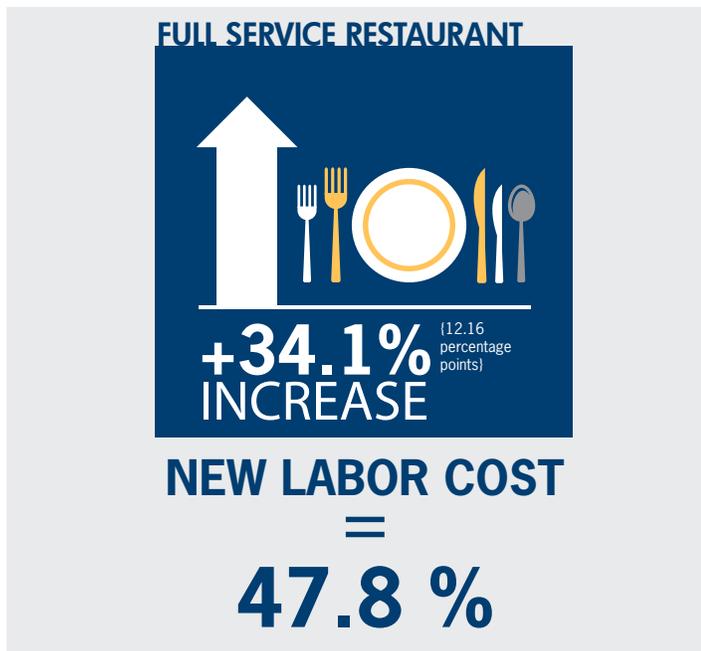
# The Restaurant Dollar Today

	Seattle – 2013 Full	Seattle – 2013 QSR
Cost of Labor (Salaries, Wages, Benefits & Payroll Taxes)	35.6%	29.6%
Cost of Food and Beverages	30.2%	30.2%
All Other Costs	30.6%	34.0%
Average Net Before Taxes and Debt Service	4.0%	6.3%

Numbers may not add up to 100% due to rounding and averaging

## Average Impact of \$15 Minimum Wage on Labor Costs in Seattle

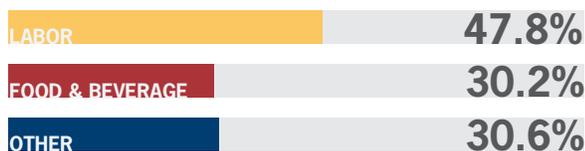
Survey respondents were asked what their total actual labor costs were in 2013. They were then asked to recalculate their 2013 labor cost if the minimum wage were \$15 in 2013. Results were as follows:



## The Restaurant Dollar with \$15 Minimum Wage without Structural Changes in the Industry

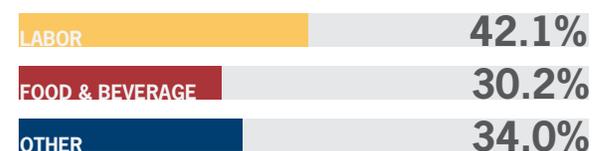
Due to labor costs alone, restaurants will effectively turn into non-profits. The survey didn't capture the additional increases to their purchases and other cost increases that would result and only further exacerbate the problem.

### FULL SERVICE RESTAURANT



**AVERAGE NET BEFORE TAXES -8.5% or -8.2%**

### QUICK SERVICE RESTAURANT



**AVERAGE NET BEFORE TAXES -6.2%**

## Restaurants Owe the Bank More Than They Make

Accounting standards dictate that capital investments should not be listed on a business' profit and loss statement (a.k.a. in this report as the "restaurant dollar"). The reason for this is that placing the entire cost of a major investment intended to last many years is not indicative of the financial performance of one year versus others.

Capital investment, according to the Business Dictionary, is money invested in a business venture with the expectation of income, recovered through earnings generated by the business over several years. These expenditures are used for capital expenses rather than day-to-day-operations and other expenses.

Nevertheless, the impact of paying back the bank is an important fact of life for operators. This cannot be forgotten when policy conversations about the restaurant dollar occur.

In order to capture this aspect of running a restaurant, we asked the survey participants two questions: "What is your invested capital in your restaurant?" and "What is your plan for the number of years it will take to pay off?"

Twenty-five percent of the completed surveys contained usable data about capital investment. We believe there were four reasons this occurred:

- Many respondents gave humorous or sad written answers that simply couldn't be converted (i.e. on Q2: "I doubt I will ever be able to pay it off" or "I now work in the restaurant for the bank not me" or "Never.")
- Some respondents answered "Just paid it off," but didn't define the investment or how long it took them to pay it off.
- Several operators said this information was just too personal, and they didn't want their debt ratio "out there on the Internet" even though the survey was anonymous.
- Lastly, since these were the final set of questions, many just didn't fill it the last couple of questions, and told the WRA anecdotally the survey was too long.

That being said, there were still some very enlightening insights from this data.

- On an average, those respondents that answered planned to pay off the bank in 10 years.
- The average restaurant that responded to our survey saw 58 percent of its annual total revenue equal debt service.
- Sixty-two percent of restaurants that responded to WRA's survey did not earn enough profit, in 2013, to meet fundamental capital investment "pay off" plans.
- This is disturbing because full service restaurants are only seeing a net profit of a mere 4 percent while the average for quick service restaurants is 6.8 percent before paying down these debts.
- This illustrates just how precarious many restaurant operators' profit lines really are.

# Average Impact of \$15 Minimum Wage on Seattle Restaurant Operations

Survey respondents were asked an open-ended question, “What are your five most likely business changes if Seattle adopts a \$15 minimum wage? Although the question was open-ended, the ten responses below were repeated often enough to equal more than ten of the answers in both the full service and quick service restaurant categories. These results were as follows:

	Full	QSR
Raise Prices	82%	82%
Layoff Employees	69%	49%
Reduce Employee Hours	55%	35%
Close Business / Declare bankruptcy / Close a location	45%	45%
Reduce store hours	38%	22%
Benefit Cuts	31%	20%
Adjust tip policy / eliminate tipping	26%	n/a
Adjust Product Offerings	20%	8%
Demand Higher Skill / Eliminate Entry Level Employees and Youth	15%	20%

## One Sobering Observation:

Eighty percent of full service respondents said they would either lay off employees, close their business, declare bankruptcy or close a location.

