

Presentation Discussion Points
Republican Health Care Solutions Group Forum
Thursday, June 17, 2010

I. Introduction

- Thank you to the members of the Health Care Solutions Group for the invitation to speak to you on behalf of the International Franchise Association about the effects of the Health Care Reform Law on Small Businesses.
- I am a Burger King franchisee and have been in the restaurant business for nearly 15 years. I currently own and operate 9 Burger King restaurants in the central part of Louisiana. Prior to my entry into the restaurant business, I practiced public accounting for 19 years, where my firm serviced many small business clients.
- Please know that these remarks are my own, and are not those of my franchisor, Burger King Corporation.
- Before I go too far, let me tell you a little bit about my employees. My last payroll run included 272 employees. Those 272 employees consist of 32 Restaurant Managers or Assistant Managers, 7 Administrative and Supervisory personnel and 233 Restaurant Crew Members. As you might imagine, my Restaurant Crew Members include a very broad spectrum of individuals – from some who have been restaurant employees for more than 20 years, to high school students who joined our team within the past week. I'll talk a little more about my employees in a couple of minutes. For the record, I am not included in those numbers.

II. About the Numbers

- As I begin, I would like to set the stage by talking a little bit about the numbers.

- Traditionally, restaurants operate on very slim margins. We rely on a large number of customers to fill our seats and our drive-thrus. Whether we're talking about a Burger King Restaurant, an Outback Restaurant or a Ruth's Chris Steak House, our customers are looking for value. To say the least, it is a very competitive industry.
- I will illustrate this by providing some data from my company's profit and loss statements from last year.
 - Food & Paper Cost – 32 ½% - If you've been to the supermarket or the gas pump lately, you know what is going on with commodity prices. Many of the commodities that make up most of our products have experienced sharp increases in recent years.
 - Labor Costs: 32% - This line item has increased by over 2% in the last few years, primarily as a result of the mandated increase in the hourly wage rate.
 - Occupancy Costs: 12% - These are fixed costs that we have little control over.
 - Royalties and Advertising: 9% - These costs are mandated in my franchise agreements so that I can operate my restaurants using the Burger King trademarks.
 - Other Operating Costs: 9% - Included in these costs are Repairs & Maintenance, Operating Supplies and Administrative Expenses.
 - That results in EBITDA, or Earnings Before Interest, Taxes, Depreciation and Amortization of 5.5% - EBITDA essentially represents the cash flow available to service debt, to reinvest in the business and to provide return on equity.
 - Debt Service: In my case, debt service was 4.50%, leaving a mere 1% for reinvestment in new equipment and return on equity.

III. Calculation of Health Care Costs

- Now, let's take another look at my employees so that you can understand the complexity of the situation.
- First, let's look at the longevity of my 233 Crew Members. Of these employees, 108 of them (or 46%) have been employed with me for less than 90 days. And 137 (or 59%) have been with me for less than 6 months!

- Of the 233 Crew Members, 32% work over 35 hours per week (our measure for full-time work), 34% work between 25 and 35 hours per week and 34% work less than 25 hours per week.
- I currently offer a health insurance program to all managers, administrative and supervisory employees who have been with the company for over 6 months. Out of my 39 employees in this category, 33 are eligible for the coverage. Amazingly, only 11 of the employees have enrolled for coverage, despite the fact that I pay 80% of the premium for them. They would rather avoid paying their 20% and go without the insurance or get the insurance from a spouse's or parent's plan.
- To understand the impact of this bill on my operations, let's look at the top line numbers. Let's look at the additional number of employees that I will be required to include in my insurance program:
 - Managers, Administrative & Supervisory Employees: Eleven (11) have accepted coverage in the plan. Under the Health Care Reform Law, 36 will be covered.
 - Crew Members: Under my current plan, crew members are not covered. But, under the Health Care Reform Law, I will be required to include 86 employees in the plan.
 - In total: I will have an increase from 11 employees to 122 employees.
- Now, let's look at the cost of implementing this plan :
 - Based on the 122 employees and an estimated annual premium of \$6,000, my additional costs will be in excess of \$550,000 annually.
 - That represents over 4.5% of my sales.
 - You will recall earlier that I only have 1% available after debt service. So, my health care cost will be over 4 times my net cash flow.
 - Furthermore, my employees will lose nearly \$150,000 in take-home pay to cover their 20% of the premium.
- If faced with such enormous increases in costs, what would you do? How would you cover these costs and still survive? Let me tell you what I will do, and what I think most small businesses will do:

1. First, I will reduce my work schedules so that fewer employees will reach 120 hours per month. The costs of allowing that employee to reach that 28th, 29th, 30th hour have now become prohibitive.
2. Second, I will likely pay the penalty instead of the insurance premium for those employees who qualify for the coverage. It will certainly be more cost effective.
3. Next, I will reduce overall employee hours to absorb the additional costs of health care. Employees will simply have to become more productive.
4. And, finally, to the degree possible, I will increase my prices, although this will be very difficult in a competitive market.

IV. Conclusion

- In conclusion, I would like to offer the following:
- Small businesses, and in particular, restaurant operators, operate on slim margins.
- Profit per employee for restaurants is near the lowest for all industries. And yet, the cost of the Health Care Reform Law mandates is staggering on a per employee basis.
- Costs mandated by the Health Care Reform law are substantial and are very difficult to absorb. I'm not sure if Congress understood the devastating effect that this will have on businesses and on employment.
- Without relief, the results will be loss of employment, increases underemployment, loss of profitability (including increases in business closures) and increased prices and inflation.
- Some suggestions for providing relief to me and other small business owners would include the ability to pool small business groups across state lines, excluding employees under the age of 26 from the mandates and increasing the threshold for meeting the full-time status.

V. Conclusion

- I'll be glad to answer any questions that you may have.
- Thank you for providing me the opportunity to speak with you.