

Statement of Bruce G. Obenour
President/Owner
Akwen, LTD. (Wendy's Franchise), Akron, Ohio
U.S. Senate – Committee on Finance
Wednesday, January 10, 2007

Opening Statement

Mr. Chairman and Members of the Committee, I'm Bruce Obenour, owner of Akwen, Ltd., a Wendy's franchise in Northeast Ohio. Thank you for the invitation to testify about the Work Opportunity Tax Credit (WOTC) and the impact of a minimum wage increase.

Company Profile

Ten years ago my family and I took a risk and started a business. Today, we own 21 restaurants. We provide jobs for about 100 full time and 650 part time workers. Our hourly crew employees averaged \$6.44 an hour in December.

Mandated increases in the starting wage may or may not result in quality of life improvements for low-skilled and entry level workers. There is certainly a broad spectrum of opinions. As an employer in the industry with the majority of these workers, I assure you there are consequences to our business and employees.

I've lived in Ohio all my life. My stores in Northeast Ohio are in the "Rust Belt." Many are in older buildings and neighborhoods. On January 1st, the Ohio minimum wage increased to \$6.85. That may not sound like much, but the cost at 41 cents more an hour is at least \$370,000 annually. An increase in the minimum wage comes with an increase in social security, employment and workers compensation taxes. In fact, we just closed a store in Cuyahoga Falls. Our decision to close was difficult, but with the wage increase looming we knew we could no longer make the store economics work. The wage increase was not the only factor in our decision, but it was a major factor.

Employer Provided “Work Opportunity”

More than any other private sector industry, restaurants provide the most on-site job training for the entry-level (especially teen) workforce. It’s more than “putting pickles on first!” Our employees are required to be rigorously trained through a specialized and highly structured format – and at considerable cost. The training we provide prepares them for future work opportunities and self-sufficiency later in life.

Training is extensive and includes proper food handling, equipment safety, preventing slips and falls, material handling, burn and cut prevention, use of fire suppression systems, personal hygiene, personal and workplace security practices, teamwork and customer relations.

We give our crew opportunities to gain specialized skill not only in food preparation and equipment use, but we also provide technology training for Point-of-Sale systems, inventory control, security systems and time clocks. Our trainees learn compliance with basic workplace laws like OSHA, Americans with Disabilities Act, wage, hour, civil rights, sexual harassment, discrimination and other employment laws.

When we hire someone, we teach the fundamental expectations all employers have for on-time arrival to work, scheduling, proper procedures for absences, being prepared for work (meaning uniforms, appearance, attitude) and learning what is acceptable behavior in the workplace.

Often we’re the first to teach young people basic workplace values, teamwork and personal responsibility.

Consequently, hiring teens and low-skilled workers is more expensive than you might think especially when the cost of labor goes up.

Mitigating the Negative Impact of Minimum Wage Increases by Targeting the Right Employers

Current minimum wage proposals call for a 41% increase. As a labor intensive business with a low-skilled workforce we're disproportionately challenged to manage the resulting margin pressure. The Quick Service Restaurant segment is different from other industries. We won't be managing labor costs by exporting jobs overseas. Our option is to run our stores with less labor. In 2001 I had 908 employees but in 2006 just 750 even though the total number of stores remained static. We can't eliminate large numbers of jobs at the store level; instead we work relentlessly to take labor out of the restaurant one hour at a time by installing more efficient dish washing equipment, high-tech grills and the like.

Proposals

We need the WOTC, it is well intentioned and effective. However it should be strengthened and expanded. To do that, we recommend the following:

Extend WOTC

The credit should be made permanent or have a longer extension.

Expand WOTC

The targeted groups under WOTC should be expanded to include teens in the Quick Service Restaurant segment. Our segment is burdened most by an increase because of the nature of our workforce and our business model.

In December the unemployment rate was 4.5%. But in my part of the country, it's higher. Significantly higher still is the national unemployment rate for teens at 15.2% and for African American teens it's 26.2%. In light of these high rates and the costs associated with training teen workers, it makes sense to enact a narrow incentive intended to help us hire those who need these job opportunities the most.

AMT Relief

For small business like mine and many other franchises which run our businesses through pass through entities, adjustments to the Alternative Minimum Tax (“AMT”) are necessary for us to make the most of WOTC and other incentives. Because of the AMT which often kicks in due to the deduction for state and local taxes and depreciation adjustments, we cannot take advantage of the WOTC thereby limiting the programs effectiveness. The law should be amended to permit the WOTC to offset AMT liability.

Summary

These recommendations would contribute to reinvestment in the workforce and businesses in the near term to the benefit of the economy. I commend the committee for its work and sincerely appreciate your focus on these important policy issues.