



March 5, 2025

Honorable Arthur J. Corvese
Chairman, House Labor Committee
Rhode Island State House
82 Smith Street
Providence, RI 02903

RE: H5507 – AN ACT RELATING TO LABOR AND LABOR RELATIONS – MINIMUM WAGES

Dear Chairman Corvese and Honorable Members of the House Labor Committee:

As the Executive Director of Rhode Island Business Leaders Alliance (the “Alliance”), I am grateful for the opportunity to provide the House Labor Committee with this written testimony in opposition to H5507 – AN ACT RELATING TO LABOR AND LABOR RELATIONS – MINIMUM WAGES, which eliminates the tip credit and gradually increases the minimum wage for employees receiving gratuities.

The Alliance is a group of Rhode Island business leaders, trade associations, and educational institutions who are concerned about seeing the Ocean State ranked at the bottom of national business climate surveys year after year and want to do something about it. We have come together in an unprecedented alliance with a positive, forward-looking vision for our state: to revitalize Rhode Island’s struggling economy and to create broad-based economic growth and opportunity for all Rhode Islanders. Our group’s ambitious goal is nothing short of the wholesale transformation of Rhode Island into a national model of economic competitiveness.

Rhode Island’s hospitality industry includes hotels, restaurants, bars, and other businesses that serve residents and tourists. In 2023, visitors to the Ocean State spent \$5.6 billion in Rhode Island, with food and beverages accounting for 26% of that total. The hospitality industry is a key part of our state’s economy and generates millions of dollars in tax revenue each year.

H5507 places our vibrant hospitality industry at risk by eliminating the tip credit and gradually increasing the minimum wage for tipped employees to equal the minimum wage for non-tipped employees by January 1, 2031.

While boosting the hourly cash wage for tipped employees seems well-intentioned, H5507 will have disastrous effects on both employees and business owners.

Tipped employees could see a substantial reduction in their earnings without the tip credit. One of the main reasons that tipped employees oppose this bill is that the tipping system allows them to earn much more than the minimum wage. A recent survey of states that abide by the federal tipped minimum wage of \$2.13 per hour shows that employees reported average earnings of \$15.51 per hour. The survey clearly shows that tipped employees make well above the minimum wage applicable to employees who do not receive tips.

Another reason cited for supporting H5507 and similar bills is that the current tip credit system results in wage disparities between front- and back-of-house staff. Advocates suggest eliminating the tip credit system along with a raise in the minimum wage for all workers. However, eliminating the tip credit will potentially reduce server compensation, and this approach does nothing to address or remedy wage disparities for back-of-house staff. Any doubt about the merits of eliminating the tip credit is validated by the strong protests from restaurants and their tipped employees across the country, who have opposed similar measures in other jurisdictions. Among these workers, the overwhelming consensus is that the negative effects of eliminating the tip credit system greatly outweigh any potential benefits.

In addition to the adverse effects on tipped employees, H5507 also will have disastrous effects on hospitality employers. If signed into law, H5507 will drive up the cost of doing business for restaurants, meaning many may be forced to cut back employees' hours, lay off workers, or even shut down altogether.

Restaurants are typically low-margin businesses that have a high risk of failure. The allowance of tips provided by customers to waitstaff, which count toward satisfying minimum wage requirements, helps keep operating costs low while maintaining high server compensation.

If H5507 passes, restaurants' operating costs will increase due to the additional financial burden on employers to provide a cash wage that equals the Rhode Island minimum wage by January 1, 2031. These increased operating costs will cause restaurants to raise their prices and/or reduce their workforce to shoulder the new financial burden. At a time when Rhode Island families are struggling with increased grocery and utility bills, many regular restaurant customers may decide to avoid higher menu prices by dining at home.

Finally, H5507 will make Rhode Island an outlier. Only seven states in the United States have eliminated the tip credit. These states are California, Oregon, Washington, Nevada, Minnesota, and Alaska. All of the Northeastern states permit tip credits and have not moved to a minimum wage without them. With neighboring states such as Massachusetts and Connecticut offering tip credits, Rhode Island would be no one's first choice for employment or to build any hospitality-based business.

An analysis of spending in Rhode Island's hospitality sector, as of August 2023, showed that hotel and meal/beverage tax revenues had returned to pre-pandemic levels in Fiscal Year 2022. The Rhode Island hospitality industry has just recovered from a global pandemic, with hotels, restaurants, and bars clawing their way back from the brink. H5507 will cause a regression in

this progress and will negatively impact not only employers and employees but also the Rhode Island economy as a whole. Simply put, tip credits are better for employees, businesses, and Rhode Island.

Thank you for your time and consideration. Please feel free to contact me to continue this important conversation.

Respectfully submitted by:

Gregory Tumolo

Gregory Tumolo, Executive Director
Rhode Island Business Leaders Alliance