Canadian Franchise Association™
Growing Together

116-5399 Eglinton Avenue West
Toronto, Ontario M9C 5K6
T: 416-695-2896 / 800-665-4232
w: cfa.ca

25 March 2020

Rt. Hon. Justin Trudeau, P.C., M.P.
Prime Minister of Canada
80 Wellington Street
Ottawa, ON K1A 0A2

Dear Prime Minister, Premiers and Mayors:

I am writing to you during this unprecedented crisis on behalf of the 80,000 franchised business locations and the 1.9 million Canadians whose jobs are dependent on franchising and franchised businesses.

Our members appreciate the actions that governments across the country have taken thus far to support employers and employees during this unprecedented time.

Like everyone, our members are trying to work through one of the most adverse business challenges we've seen in generations.

In consultation with our members, we have developed a comprehensive set of recommendations that will help give businesses (franchised and non-franchised) the tools to help them weather this storm and the tools to help Canada and the Canadian economy grow tomorrow.

We look forward to working in partnership with the federal, provincial, and municipal governments across Canada to move forward with these recommendations so we can move beyond this public health and economic crisis.

The Canadian Franchise Association's Director of Government Relations and Public Policy, David Black, will be in touch with your office and the relevant Premier's, Minister's and Mayor's Offices to work with you to put the necessary supports in place to help franchised businesses across Canada. You or your staff may contact David at dblack@cfa.ca or 647-828-6315.

Sincerely,

Sherry McNeil
President and CEO

Cc: Canada's Premiers
Canada's Mayors

Canadian Franchise Association™

Growing Together

How to help franchised businesses across Canada today and tomorrow

25 March 2020

About the Canadian Franchise Association (CFA)

The CFA represents 80,000 franchised business locations and 1.9 million Canadians whose jobs are dependent on franchising and franchised businesses. Like everyone across Canada, our members are trying to work through one of the most adverse business challenges we've seen in generations.

The CFA helps everyday Canadians realize the dream of building their own business through franchising. We connect prospective franchisees with education about franchising and the opportunities in franchising. Our members are diverse and range from small/emerging to mature/established franchise systems in a variety of industries and sectors. Our membership also includes service suppliers to the franchise industry, such as banks, accountants, lawyers, consultants, and brokers.

We appreciate the actions that governments across the country have taken thus far to support employers and employees during this unprecedented time.

Franchising IS local business

There is a mistaken perception that franchised businesses are not local businesses. While many brands are recognized across the country and across the world, the local stores are owned by franchisees that live and work in their communities from coast to coast to coast. Franchising is the most ubiquitous form of local business in Canada and – without ongoing support – will be completely devastated.

You would be hard-pressed to find a Canadian neighbourhood without a franchised business. With franchise systems representing more than 50 different sectors, Canadians from Halifax to Victoria to Iqaluit are interacting with this business model on a daily basis. From getting morning coffee, to daycare to house cleaning, to food services, to dry cleaning, to buying groceries, to hotels, the franchise model is an important part of their day-to-day lives.

With the unprecedented health pandemic and required steps needed to slow the spread of the disease, the operations of tens of thousands of local businesses are threatened, along with the jobs of millions of Canadians that they employ.

Help keep franchisees in business TODAY

Estimates from across Canada and internationally suggests that 30-50% of franchisors and franchisees will become bankrupt as a result of COVID-19 and that we expect a recession to follow. To stem this tide, we have a number of suggestions that would complement actions already taken by governments across Canada so we can avoid economic catastrophe.

Wage subsidy needs to increase

The CFA and its members appreciate the government's move to try and alleviate the cash crunch that many franchisors and franchisees are facing. The wage subsidy support is appreciated by our members. However, they are finding the drop in business more significant than expected.

As our members are forced to make some very hard choices, they are finding that the 10% subsidy, while welcome, is insufficient to allow them to retain their employees while also keeping their companies financially solvent.

We recommend you increase the wage subsidy. The subsidy would decline back to normal on the following schedule after the States of Emergency are lifted:

- **100% of the renumeration paid for the duration of the States of Emergency,**

- **75% of the renumeration paid for months 1 and 2 following the lifting of the States of Emergency,**
- **50% of the renumeration paid for months 3 and 4 following the lifting of the States of Emergency, and**
- **25% of the renumeration paid for months 5 and 6 following the lifting of the States of Emergency.**

Franchised businesses have part- and full-time employees whose jobs are at risk. For example, a quick service restaurant has an average of 50 employees. As such, the current cap on the subsidy creates a disincentive for them to retain their staff as operations decline or are shutdown.

We recommend that the maximum subsidy increase to $10,000 per employee for renumeration between March 18, 2020, and June 20, 2020 with no cap per employer. Tax authorities can monitor uptake through the 2020 corporate income tax return filing.

Worker Compensation Premium Subsidy

Many employers across the country are closed as a result of the states of emergency that are in place. Unfortunately, they are still required to pay the workers compensation premiums in their respective province. By continuing to treat these premium payments as business as usual, more and more businesses are being pushed towards bankruptcy.

We recommend that governments across Canada provide a rebate of the workers compensation premium paid by businesses that are closed or have seen a decrease in revenue of more than 25% due to the States of Emergency that exist across Canada. The premium rebate should be administered similar to the wage subsidy. The premium rebate would decline back to normal on the following schedule after the States of Emergency are lifted:

- **100% of the premium paid for the duration of the States of Emergency,**
- **75% of the premium paid for months 1 and 2 following the lifting of the States of Emergency,**
- **50% of the premium paid for months 3 and 4 following the lifting of the States of Emergency, and**
- **25% of the premium paid for months 5 and 6 following the lifting of the States of Emergency.**

Sales Tax Remittance Deferrals

Sales tax remittance deferrals are another way that government can help Canadian businesses that are facing revenue losses to survive and to help prevent lay offs. Similar to the wage subsidy, businesses will benefit immediately if they are allowed to reduce or defer sales tax remittances to ensure they can have money available to continue to pay their employees.

We recommend that the federal and provincial governments should let businesses defer net monthly and quarterly PST/GST/HST remittances, starting with payments owed on or after March 18, 2020.

Commercial rent relief

There is a tremendous amount of concern amongst our members about their ability to pay rent on their commercial spaces during the government mandated shutdown. While our members understand the critical importance of these actions to slow the spread of COVID-19, rent payments over the coming weeks and months will bankrupt a significant number of franchisees. This will exacerbate the impact of economic decline as store fronts across Canada become vacant.

Our members were very happy to see the move that was made by Canada's big six banks to allow a deferral of mortgage payments. This will help many franchisors and franchisees who own properties. However, the bulk of franchisors and franchisees do not own their bricks and mortar locations. Many have rent payments that are due next week, which they will not be able to pay as they have no income.

We recommend governments across Canada place a moratorium on rent payments for businesses that are closed or have seen a drop in sales by more than 25% due to the States of Emergency that exist across Canada until two months after those States of Emergency are lifted. This will allow business owners to keep their businesses while also giving them some time to get back on their feet after the situation has improved.

Government could implement this by providing a one-time enhanced capital loss credit to affected landlords for the value of the rent. Franchised businesses could also report on their 2020 corporate income tax return the amount of rent that was not paid to ensure that business owner and landlord records are reconciled and that no one is trying to take advantage of the current situation.

While we recognize that this will put some financial pressure on landlords, the one-time capital loss credit can help offset that loss.

Evictions and the seizure of goods and chattels within a property for non-payment of rent is another threat facing business owners who are unable to pay the rent due to the closure or significantly reduced revenues as a result of Covid-19.

We recommend that governments put in place a moratorium on evictions and seizure of property during the States of Emergency and for the 2 months thereafter.

This will allow small business owners time to work with their respective landlord to determine the appropriate rent deferral or rent abatement program. It will also allow the franchisees to focus on running their business and keeping their employees.

Municipalities must forgo property tax payments during this crisis

Municipalities across the country rely on property taxes as their primary source of income. However, bankrupt businesses and bankrupt landlords are unable to pay any property tax. We fear that, even with the commercial rent relief and an enhancement to the payroll tax rebate, franchised businesses will not survive without a property tax rebate.

Many municipalities have talked about a tax deferral. However, that is not viable for businesses with almost no income. Deferring property taxes to a future date without the requisite reduction in the total amount owing simply delays a bankruptcy to another date – it does not help avoid that bankruptcy.

We recommend municipal governments across Canada forgo business property tax payments for all businesses from March 15, 2020 until two months after the provincial States of Emergency are lifted.

This will help keep businesses solvent during the shutdown while also giving them some time to get back on their feet after the situation has improved. This will also alleviate pressure on landlords who will not face the potential loss of their property for failure to pay property taxes.

Relief from utility bills

Businesses of all kinds across the country are facing unprecedented economic turmoil. While many businesses are closed due to the management of COVID-19, they still have costs associated with utilities.

While a huge number of franchised businesses are closed, they and their landlords are having to pay utility bills based on almost zero actual usage due to the delivery charge that is in place on electricity bills across Canada in one form or another. While we appreciate that the delivery charge reflects the cost of delivering electricity from the generator to the local utility, it is unaffordable in the current circumstances.

We recommend that governments across Canada work with their local utilities to provide a rebate of 80% of the delivery charge until two months after the states of emergency are lifted.

The fiscal impact of this proposal will be relatively small as the delivery change is associated with building and maintaining transmission and distribution lines, towers, and poles. This cost is amortized on the governments balance sheet over the life of the asset. By extending the amortization of these costs over an additional few month, governments could provide businesses of all sizes a rebate during this shut down that will not have a significant fiscal impact.

Loan Payment Deferrals (Term Loans, CSBFP, etc.)

We were appreciative that Canada's big six banks have announced that they would be allowing customers to defer mortgage payments. While we appreciated this move, we do have some concerns with how this is being administered by the banks given the number of media reports that suggest that many applications for deferral are being denied.

We are also concerned that the deferral does not apply to term loans and Canadian Small Business Financing Program (CSBFP) loan payments. Many franchisors and franchisees finance their operations through these financial tools. Unfortunately, as a result of the current situations they are not able to make their installment payments, which could result in their bankruptcy.

We recommend that the federal government compel Canada's schedule 1 and schedule 2 banks to allow Canadian business to defer payments of mortgages, terms loans, and CSBFP payments for up to 4 months during this period of unprecedented economic upheaval and financial uncertainty.

Require rating agencies to freeze credit scores

Financial institutions and other businesses regularly use credit rating agencies to determine an applicant's borrowing ability. Most small businesses across Canada rely on their owner's credit scores to secure financing. Given the tremendous upheaval in the market due to COVID-19 these credit scores are likely to be severely impacted as businesses have seen significant declines since February 2020. A credit score downgrading will make it more difficult for a small business to get through the economic downturn. A credit downgrade will also make it more difficult for small businesses to borrow in the future furthering lengthening any economic downturn.

We recommend government enact policies and legislation that will prevent the credit agencies from downgrading a credit score until after the State of Emergency is lifted.

Growing businesses TOMORROW

While the immediate crisis is an existential threat to franchised businesses currently operating in Canada and must be dealt with, we must also think about how we can help people start and grow their businesses once this crisis is behind us.

Franchised businesses often have a better track record of success than new independent businesses because of the brand recognition that helps bring in more customers compared to non-franchised businesses.

Franchising is often the first sign that we are moving out of recession

An interesting facet of franchising and franchised businesses is that they often are at the forefront of economic growth as economies move out of recession. This is primarily a result of a system that has been tested and proven in difficult economic times.

From the public's vantage point, franchises look like any other chain of branded businesses. However, they are very different. Franchising is a contractual relationship between a licensor (franchisor) and a licensee (franchisee). The franchisor provides systems, tools, and ongoing support so that their franchisees have what they need to succeed. The franchisees independently manage the day-to-day operations of their local businesses and work with the franchisor to make their local stores a success in their local markets. By working hard and working together they can succeed.

Create an incentive/subsidy for new hires

Once the current situation improves and public health authorities give the greenlight for businesses to reopen, many employers will be in a better position to rehire staff. Some may be slow to do so because of uncertainty about the strength of the recovery or because customers are slow to return.

We recommend government enact a tax incentive or subsidy for employers so they can rehire previous workers or hire new employees more quickly. The incentive could be administered similar to the wage subsidy with reduced remittances of payroll taxes.

Improving access to capital

Many franchised businesses require access to capital for start-up, expansion and growth just like any other business. The Canada Small Business Finance Program (CSBFP) is one of the resources available. Unfortunately, the CSBFP does not allow a number of expenses that are key to helping get a franchisee up and running. The program does not allow for working capital for soft costs, such as franchise fees, training, building permits, etc., which makes it very difficult for franchised businesses to fully take advantage of the program.

For bricks and mortar franchise systems, the physical locations typically have hard costs admissible to the program but there are several start-up costs (40%) that do not qualify. For example, it costs approximately $220K to get a new The UPS Store up and running. That includes $135K of hard costs that qualify for the program but $85K in soft costs, like working capital and fees, that are disqualified from the program.

In contrast, most non-traditional and/or home-based franchise systems do not have the same hard cost requirements and are therefore unable to access the CSBFP. Non-traditional/home-based franchise businesses require unique financing for working capital facility for soft costs like franchise fees, education/training/tuition, etc., which are not eligible under the current structure of the program. This impedes these businesses from getting established and from growing.

We recommend that the Government of Canada expand the CSBFP to include soft costs such as training, franchise fees and some working capital to be considered eligible expenses under the program which will allow traditional business, bricks and mortar franchised businesses and non-traditional/home-based/service-based franchises to take advantage of the program.

Without the CSBFP there will be a funding gap

If the CSBFP did not exist, there would be a funding gap that the private sector would not fill. The banks have indicated that higher risk areas such as retail and hospitality would have difficulty accessing capital. With the advent of COVID-19, those businesses' ability to access to capital will further shrink as the current market moves into the predicted recession.

Increase maximum loan amount

Under the current CSBFP program criteria, the maximum loan amount a borrower can access under this program is $1 million, of which no more than $350,000 can be used to finance the purchase or improvement of equipment and the purchase of leasehold improvements. Unfortunately, many franchised businesses have found that these limits are too low. Prospective franchisee must then find additional financing from other sources, which can result in a precarious state prior to serving their first client or customer.

We recommend that the maximum loan amount be increased to $1.5 million with borrowers being allowed to use up to $1 million to finance the purchase or improvement of equipment and the purchase of leasehold improvements.

We also recommend that the requirement for personal guarantees be removed.

Increasing the rate will allow more businesses to take advantage of the program, helping to spur economic growth as we recover from COVID-19. The federal government has already invested $10 billion to ensure the banks have sufficient liquidity during this economic downturn. By increasing the loan amounts, the banks will then be able to flow loans to businesses that will help signal Canada's recovery.

Allow a portion of working capital to be financed by the CSBFP

One of the largest concerns for a franchise is working capital, even more so as they navigate through economic downturns. According to Innovation, Science and Economic Development Canada, thousands of companies fail in Canada every year because they have no access to sufficient working capital.

While it may be possible for some larger companies to take out a loan, many franchised businesses – especially new franchised business locations – are not able to do so as banks are not willing to flow loans that are unsecured to new business. We understand the need for a prospective franchisee to have "skin in the game", which is why we would support the imposition of a percentage limit on how much of the loan can be used to finance working capital.

We recommend the program criteria be amended to:

- **Allow a portion of the CSBFP to be used for working capital. It can help franchisees solve temporary cash flow issues either by allowing them to invest in their start up or to address operational slowdowns during the year; and**
- **Allow a maximum of 35% of the loan up to maximum $250,000 to be used for working capital.**

These changes will help new businesses get onto a more secure financial footing from the beginning while also allowing them to deal with temporary cash flow issues that may arise.

The CFA has worked with the banks to make the program work better

From 1999 to 2015, the number of CSBFP loans made decreased almost every year which was primarily a result of bank policies and structures that made it more complicated for a small business to work with their lender to gain access to the program.

Since 2015 the loans made under the CSBFP have started to increase. This is a result of many of the banks offering discount rates to small businesses and changes to how they finance franchise systems within their bank.

Working with many of our members, financial institutions across Canada have created franchise-specific financing groups. These groups have the necessary expertise to help prospective franchisees get started. They also have expertise in working with specific franchised systems and brands to ensure that the loan is appropriate in the circumstances. Many of the qualified financial institutions have also introduced Behaviour Scoring Models to continue monitoring borrowers once funds are advanced. Some banks have also introduced centralized processing for CSBFP loans eliminating the complexity for their front-line employees.

Conclusion

Franchised businesses exist in every community across Canada. This business model employs over 1.9 million Canadians. All franchised businesses want to maintain every single job throughout this crisis but, to do so, we need help. We believe that these recommendations will help blunt the economic decline that will come in the days and weeks that follow and help the Canadian economy recover more quickly.

Franchising is about being in business for yourself but not by yourself. Our mantra is Growing Together™. By working together and implementing the reforms above, federal, provincial, and municipal governments, landlords, and financiers will help us grow Canada’s economy together.

Once again, we thank governments across the country for the short-term stimulus that they have already provided during this unprecedented global crisis. We look forward to working with you and your teams to help Canada get through this crisis and grow our economy.

Summary of Recommendations

Wage subsidy needs to increase

We recommend you increase the wage subsidy. The subsidy would decline back to normal on the following schedule after the States of Emergency are lifted:

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- 50% of the renumeration paid for months 3 and 4 following the lifting of the States of Emergency, and
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Increase maximum loan amount

We recommend that the maximum loan amount be increased to $1.5 million with borrowers being allowed to use up to $1 million to finance the purchase or improvement of equipment and the purchase of leasehold improvements.

We also recommend that the requirement for personal guarantees be removed.

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We recommend the program criteria be amended to:

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