



MINIMUM WAGE PROPOSAL

Pasadena Chamber of Commerce and Civic Association Alternative

The Pasadena Chamber of Commerce and our local business community recognize there is momentum among local political leadership to raise the minimum wage in Pasadena.

While raising the minimum wage to \$15 per hour by 2020 may seem to be a simple solution to many concerns expressed by some in the community, the Chamber and our businesses also recognize doing so could have significantly negative impacts on our local economy, employment and our local business community, especially our small businesses. We would like to propose an increase to \$12.50 per hour by 2020. We are convinced this increase would prove to have fewer potentially negative impacts on our local workforce, local small business and our Pasadena economy.

Background

Our research and analysis seriously questions implementation of the Los Angeles minimum wage proposal here in Pasadena. We are a very different city, with a very different population and a significantly different economy. All our analysis shows that the Los Angeles minimum wage increase will not have the impact desired or anticipated by the advocates and could negatively impact our local small businesses, employment opportunities in Pasadena and our economy. (Analysis that was done for the Chamber is attached for your reference.)

The Pasadena Chamber research data also shows that very few Pasadena residents would benefit from any local increase in the minimum wage. According to U.S. Census data, only 13,700 persons who live in Pasadena work here. Of those, 2,372 are home based workers. Of those 11,328 resident workers remaining, a much smaller subset, likely fewer than 1,000, are minimum wage earners. (The U.S. average for minimum wage earners is 3.7%.) Many of those minimum wage earners in Pasadena are part-time, student workers or workers whose primary income is significantly enhanced by gratuities, tips, commissions or other income. In all likelihood, based on census and other data, fewer than 500 resident Pasadena workers would benefit from any increase in the minimum wage.

Based on surveys and research done by the Pasadena Chamber of Commerce, there will likely be several negative impacts resulting from any increase in the minimum wage. As outlined in our presentation to the Economic Development and Technology Committee in November, local businesses, especially small businesses, would react to any increase in the minimum wage in any combination of these ways:

- Raise prices (59%)
- Reduce workforce (52%)

- Reduce hours for existing workers (46.4%)
- Reduce operating hours (17.6%)
- Stop hiring entry-level, unskilled workers (21.6%)
- As we have experienced with closures and impending closures of restaurants such as Dona Rosa (which could not absorb additional expenses or increase prices to meet additional costs resulting from rent increases, material costs and the January 1, 2016, minimum wage increase to \$10 per hour) and Stats (which is heavily dependent on seasonal, part-time minimum wage employees) and others, some businesses will not survive the combined increases in costs, including minimum wage.

Research done for the Pasadena Chamber of Commerce clearly shows that imposition of the Los Angeles/Los Angeles County \$15 per hour minimum wage scheme could have significant negative impacts on Pasadena, our local businesses and our local economy.

Further, research by respected economists throughout the world shows that workers who are most negatively impacted by minimum wage increases are exactly the workers it is intended to assist. According to one study by David Neumark (UC Irvine) and William Wascher (Federal Reserve) research *“still shows that minimum wages pose a tradeoff of higher wages for some against job losses for others, and that policymakers need to bear this tradeoff in mind when making decisions about increasing the minimum wage.”* Low paid, low skilled and under-educated workers, the very people intended to benefit from minimum wage increases, are the same people who find it more difficult to find and maintain employment.

Likewise, minimum wage increases do not impact poverty rates. In Santa Fe, New Mexico, rate of families living in poverty in 1999, five years before the city enacted its living wage ordinance, was 9.5%. In 2010, six years after the increase, the family poverty rate had risen to 10.6% for all households in the City of Santa Fe. Some evidence suggests that minimum wage increases can push some families into poverty as a result of fewer employment opportunities and loss of existing opportunities. Neumark and Wascher, in an earlier study found minimum wage increases made *“it more likely that previously non-poor families may fall into poverty.”* Rather than lift people out of poverty, there is a slight increase in poverty among families and individuals as a result of minimum wage increases. *“The estimated increase in the number of non-poor families who fall into poverty is larger than the estimated increase in the number of poor families that escape poverty.”* Their research, published as *Do Minimum Wages Fight Poverty* by the National Bureau of Economic Research, shows that there is a net increase in the number of families living in poverty after minimum wages are increased.

For reference, we are including analysis done for the Pasadena Chamber by independent, unpaid volunteer graduate students, and a peer review of that work done by a retired economics Ph.D., as well as the PowerPoint presentation the Chamber made for the Economic Development and Technology Committee in December. Further information can be provided as requested, including economic studies related to impacts of minimum wage increases.

Pasadena Chamber of Commerce Alternative Minimum Wage Proposal

The Pasadena Chamber of Commerce would like to propose an alternative that would increase minimum wages in Pasadena, but at a rate that would be less risky for our local small businesses, employment opportunities and our local economy.

The Chamber proposes a gradual increase in minimum wages to \$12.50 per hour by 2020.

Under our proposal, wages would be raised on this timetable:

- January 1, 2016: \$10.00 per hour (State of California new minimum wage)
- January 1, 2017: \$10.50 per hour
- January 1, 2018: \$11.00 per hour
- January 1, 2019: \$11.75 per hour
- January 1, 2020: \$12.50 per hour

Further, the Pasadena Chamber would like to recommend the following:

- Allow small businesses with fewer than 100 employees an additional year to begin implementation.
- Allow community-based non-profits an additional two years to begin implementation.
- Exempt youth workers and workers with significant barriers to employment, such as recently released felons, formerly homeless, recovering substance abusers.
- Do not tie future increases to the Consumer Products Index, or any other artificial indicator.
- Require City Council approval of minimum wage increases at every step to ensure goals are being met without adverse impacts to Pasadena, its economy or local small businesses.
- Following the model set by Seattle, Washington, the Chamber also recommends that the City of Pasadena implement the total earnings/total compensation model for all workers (not just union members, but including union members). Minimum wage would remain at state mandated level for those earning more than the city minimum due to commissions, tips or other earnings and other benefits earned through their workplace.

In addition, the Pasadena Chamber would like the City of Pasadena and City Council to consider implementation of tax and fee offsets, possibly including:

- 1.) Reduce Utility User Tax to 4% for all. This will help companies cope with wage increases. Will also reduce regressive tax that places a higher burden on low-income people (and will put more spending money in their pocket). Utility User Tax averages about 8%. Reducing UUT by half could save an individual with a cell phone bill of \$50 per month and average utility bills approximately \$12 per month. For families, homeowners, businesses and those with multiple phones and cable TV savings would be higher.
- 2.) Reduce the transfer from Pasadena Water and power to the General Fund to 5% and reduce utility rates accordingly. This will save businesses, but also put money back into the pockets of low-income persons who pay a proportionally higher percentage of their income on utilities. The 5% savings could mean about \$5 per month for an individual apartment dweller and more for families in larger, older, less efficient dwellings.
- 3.) Eliminate business license fees for any small business paying minimum wages to five or more employees.

The Pasadena Chamber has studied minimum wage extensively and drew our recommendation from examples of actions taken by other cities in circumstances similar to Pasadena, including:

- 1.) Tacoma, Washington, citizens voted in support of a \$12 per hour minimum wage (by more than 70%) over a \$15 per hour alternative. Tacoma, like Pasadena, is a relatively small economy adjacent to Seattle, Washington. (Seattle is a regional economic powerhouse, similar to Los Angeles, that is raising minimum wage to \$15 per hour by 2020 using a total earnings model that includes benefits, commissions, tips and other compensation in the minimum wage calculation.)
- 2.) Sacramento, California, enacted a proposal to raise minimum wage to \$12.50 per hour by 2020, following an inclusive process that had a stakeholder group make a recommendation to the City Council.
- 3.) Long Beach, California, recommendation from the Economic Development Committee empowered by the City Council, is to raise minimum wage to \$13 per hour by 2019. They also recommend City Council consider the total earnings model.
- 4.) San Jose and surrounding communities raised minimum wage to \$10.30 per hour January 1, 2016. Wages will rise by CPI each year thereafter. Some surrounding cities are at \$10 per hour, except Mountain View and Palo Alto, which are at \$11 per hour.
- 5.) San Diego approved a minimum wage increase to \$11.50 per hour in 2017. Minimum wage will rise by CPI beginning in 2019.

Definitions:

1. Total earnings (as defined in the Seattle minimum wage ordinance): *Small employers can pay an hourly minimum wage and make up the minimum compensation balance with employee tips and/or payments toward an employee's medical benefits plan. To use tips to make up the balance of minimum compensation, the tips must be (a) actually received by the employee and (b) reported to the Internal Revenue Service. Note: employers must provide employees notice of tip policy at the time of hire (as required by the City of Seattle's Administrative Wage Theft Ordinance). Seattle defines small employer as anyone with 500 or fewer employees.*