



March 25, 2014

Honorable Members of the Economic Development Committee
c/o Gerry Miller
Office of the Chief Legislative Analyst
200 North Spring Street, Room 255
Los Angeles, CA 90012

Dear Committee Members:

Thank you all for recently meeting with me recently.

As voiced in our meetings, the California Hotel & Lodging Association believes that a mandate to increase wages for only hotel employees to \$15.37 per hour will negatively impact the City of Los Angeles.

It's for that reason we are supportive of the Economic Development Committee's directive to study the economic impact of such a mandate. It is our request that the Office of Economic Analysis (OEA), which was established by the City Council for the purpose of incorporating economic impact analysis into the City's legislative decision-making process conduct this research on behalf of the Council. OEA already has considerable experience in such endeavors, and familiarity with the hotel industry via the economic impact analysis of the proposed downtown stadium and convention center project.

Areas of analysis should include:

- By what means has the wage been determined to be \$15.37 per hour? With the Affordable Care Act being implemented, how its implementation effect this figure, if at all?
- Competitive Issues:
 - Convention/Group/Corporate business:
 - What would be the ability for area hotels to compete for future convention business with Anaheim, San Diego, and San Francisco?
 - How does the competitive environment change for group and corporate meetings with surrounding areas such as West Hollywood, Pasadena, Marina Del Rey, and others as well as regional competitors in Southern California?
 - Restaurant/Catering/Banquets:
 - How would such a mandate impact restaurants and food service in hotels?
 - What is the rationale for exempting an identical business, such as a restaurant or meeting venue, just because it is not in a hotel?



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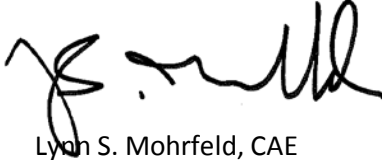
- General Operations:
 - Complete a comprehensive hotel & lodging industry wage survey.
 - Identify operational changes (pricing, reduction in hours, services elimination, etc.) that further compound the ability to compete with other regional hotel properties?
- Size of Hotels:
 - What will be the economic impact of hotels reducing the number of rooms (see Long Beach example below)?
 - How many employees will be displaced by these room reductions and what is the impact upon the City of Los Angeles?
 - What is the economic rationale for the size of an impacted hotel proposed to be 100 rooms or greater?
 - What is the difference in a 100 room hotel from a 300 room hotel (for example) that would justify the increased wage mandate?
- Future Development:
 - How will this impact the ability to attract hotel development/financing?
 - Published reports indicate the Los Angeles Convention Center needs 4,000 additional hotel rooms to begin to be competitive – how does this mandate effect the development and/or timing of any future development?
 - If there would be an impact on development, how would this effect the City’s ability to attract marquee events, such as the Olympics?
- Exemptions:
 - What is the economic rationale for exempting hotels with collective bargaining agreements?
 - Why don’t union employees deserve a living wage?
 - What is the rationale for including tipped employees that effectively earn a wage above the proposed mandate?
- Review of comparable circumstances:
 - LAX Living Wage:
 - What is the nexus (equivalent to LAX) for expanding this mandate, and why just hotels? Why wouldn’t other employees deserve this increased wage?
 - Why are businesses with collective bargaining agreements exempt and what is the economic analysis to employee wages.
 - Of businesses that don’t provide the higher tiered rate (excluding health care benefits), how many employees utilized the additional hourly rate to purchase health care coverage?
 - Long Beach Living Wage:
 - What is the impact on the (at least) 75 employees who lost jobs as a direct result of this measure?
 - What is the effect of the loss of revenue and taxes from the closure of 41 and 75 rooms, respectively, from the two area hotels which reduced their room numbers?

- Of all hotel employees, how many were effected and how many did not receive the living wage increase because they worked in union hotels?
- Administration:
 - What is the annual cost to the City of Los Angeles to implement, monitor, and respond to issues related to this mandate?
 - How many employees would be required to administer this mandate?
 - How would the tax collection receipts be affected?

In addition to these limited issues, the economic firm chosen to perform this economic analysis should be agreeable to all stakeholders in this matter, studying the issue broadly and in its entirety. The premise of raising wages to create additional spending must be coupled with the cost of providing these wages and the reduction of jobs and income which will also affect the economy.

Thank you for your consideration.

Sincerely,



Lynn S. Mohrfeld, CAE
President & CEO

cc: Chair Price
Vice Chair Krekorian
Councilmember Cedillo
Councilmember Huizar
Councilmember Martinez

MINIMUM WAGE & POVERTY IN SAN DIEGO

June 2014

A STUDY BY:



IN PARTNERSHIP WITH:



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EXECUTIVE SUMMARY

A STUDY BY:



IN PARTNERSHIP WITH:



MINIMUM WAGE & POVERTY IN SAN DIEGO


June 2014

The San Diego County Taxpayers Association, in partnership with the San Diego Regional Chamber of Commerce, produced a comprehensive analysis of minimum wage, poverty and related issues, including the potential impacts of raising the minimum wage in San Diego. The full study can be found at www.sdcta.org.


Finding #1

Many **small businesses** predict they will have to **downsize** and **cut hours** as a result of minimum wage increases.

Some businesses may benefit from increased purchasing power of low-wage workers. However, local businesses expressed several concerns including pressure to increase prices and reduce payroll. Harry Schwartz, co-owner of Ace Hardware Downtown, is concerned that the higher prices will push even more customers to online retailers. He is also reconsidering expansion plans in the City of San Diego.

A photograph of the interior of Studio Diner in Kearny Mesa, showing a long wooden bar with red leather stools and a server in the background.

Studio Diner in Kearny Mesa will have to compensate for upcoming minimum wage increases by increasing prices and downsizing.

A photograph of the interior of Phil's BBQ restaurant, showing a server in a black uniform and cap standing near a stack of wooden chairs.

Phil's BBQ predicts that downgrading its employee benefit package will be one of many steps it is forced to take to offset increased wages.

Finding #2

When **businesses are forced** to pay increased wages, most of **those dollars do not reach families living in poverty.**

Increasing the minimum wage is an inefficient tool for reducing poverty because the majority of low-wage workers do not live in low-income households. People living in poverty are the ones who are supposed to benefit from increases to the minimum wage, but relatively few do. Studies show less than 20 cents of each dollar in increased wages reach families living in poverty.

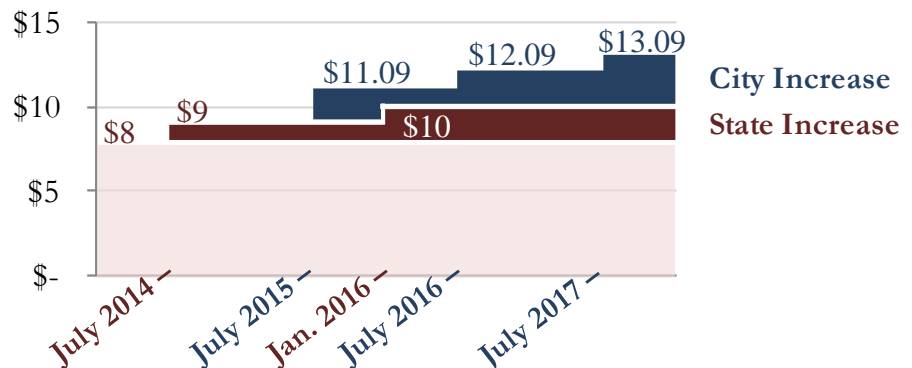


Finding #3

Sacramento is imposing **minimum wage increases totaling 38%.** The **proposal** before the San Diego City Council would commit to increases totaling **64%.**

Economists disagree about the effects of increasing the minimum wage and whether it will help people living below the poverty line. Many argue minimum wage hikes will result in job losses. The local economic impacts of the state's increase can provide insight specific to San Diego. **The proposal before the San Diego City Council would commit to additional increases without a clear understanding of how our economy will react to the two State-imposed minimum wage hikes beginning in July 2014.**

If the proposal before the City Council is passed, the minimum wage will increase from \$8.00 to \$13.09 over three-year period.





Finding #4

The **minimum wage hike** proposal before the City Council is based on a **flawed study**.

The Center for Policy Initiatives (CPI) has calculated that \$13.09 is the hourly wage required to sustain a single adult on a “budget for no-frills living” in San Diego. The proposal before the City Council adopts this calculation.

However, the CPI calculation unreasonably incorporates the full cost of a one-bedroom apartment, even though many people opt to share two-bedroom apartments regardless of income level. Replacing the cost of a one-bedroom apartment with half the cost of a two-bedroom apartment – as reported from the same source – brings the wage needed to support a “budget for no-frills living” to \$11.24 per hour. Additionally, neighborhood-level data reveals opportunities for low-income workers to live on \$10.89 to \$10.99 per hour.

Monthly Costs in San Diego County

	Center for Policy Initiatives (CPI) Calculation 1-Bedroom Apartment	Studio Apartment	Shared 2-Bedroom Apartment
Housing	\$1,032	\$939	\$677
Food	\$270	\$270	\$270
Transportation	\$290	\$290	\$290
Healthcare	\$137	\$137	\$137
Miscellaneous	\$173	\$173	\$173
Taxes	\$402	\$402	\$402
Total Household Income Needed Monthly	\$2,305	\$2,211	\$1,949
Total Income Needed Yearly	\$27,655	\$26,532	\$23,388
Hourly Wage Needed When Working 40 Hours/Week	\$13.09	\$12.76	\$11.24

Sources: SDCTA, CPI, U.S. Department of Housing and Urban Development

Finding #5


Automation and **globalization** are depressing wages for low-skilled labor. **Workforce development** and **education** are **at the heart** of the wage issue.

Technology and automation have reduced the need for low-skilled employees. One study estimates that the U.S. economy has lost two million clerical jobs due to automation since 2007. **Another study estimates that approximately 47 percent of U.S. jobs are at risk of being replaced by computerization over the next two decades.** This means education and workforce development provide the best opportunities for adapting to our changing global economy.

Finding #6

Several steps must be taken to meaningfully **reduce poverty.**

Best practices for fighting poverty include staying the course on eradicating chronic homelessness, bolstering workforce development, and establishing State Earned Income Tax Credits. **Efforts to reduce poverty are most effective, and carry the fewest negative economic impacts, when several approaches are taken together.**



Ann Kinner owns Seabreeze Books and Charts off Rosecrans. She pays a part-time employee \$1 an hour above minimum wage to help run the shop. Ann anticipates having to cut this employee's hours or let her go when wages are increased.

Section II – The Purpose of Minimum Wage

The first step in objectively analyzing the idea of increasing the minimum wage is to establish the purpose of increasing the minimum wage. There are generally two overlapping arguments for increasing the minimum wage. The first is that raising the minimum wage can act as a safety net promoting workers' rights for low-wage workers that have less bargaining power than employers. The second is that the minimum wage is a tool that can be used to fight income inequality and poverty. Ultimately, both are about reducing poverty.

Increasing Workers' Rights and Bargaining Power

As stated earlier, one common argument is that the minimum wage supports workers' rights and bargaining power. In a 2004 report, The Economic Policy Institute¹ takes the position that "The free market fails to set a fair price when one side holds all the bargaining chips." It argues that low-wage workers do not tend to have the option of withdrawing their labor from the market so employers can exploit this by pushing the worker to accept less compensation than they might otherwise.

Making a similar argument by using data comparing rising corporate profits to laborers' share of income, Ezra Klein, editor of the Washington Post "Wonkblog" and columnist at the Washington Post² says:

"There are many explanations for why labors share of income is falling. Globalization, automation, skills based technological change and the decline of unions all play a part. But in the end, all these explanations end up saying the same thing: Most workers have less power to negotiate raises than they did a generation ago. And that's truest for those who are making the least money and holding the fewest skills."

Klein does note that there are potentially better options to help workers such as expansions of the Earned Income Tax Credit that could help a broader swath of the population, but he says the minimum wage is determined to be the most politically feasible option.

Reducing Income Inequality and Fighting Poverty

Much of the language used by policy-makers indicates that the minimum wage is seen as a way to address income inequality and help the poor. Poverty reduction and income redistribution are portrayed as the main goals of minimum wage increases and there have been extensive writings on how, in these individuals' opinions, the benefits of this objective for a minimum wage increase outweigh the costs.³

In a December 4, 2013 speech, President Obama called income inequality "the defining challenge of our time" and called for a minimum wage increase because "there are airport workers, and fast-food workers, and nurse assistants, and retail salespeople who work their tails off and are still living at or barely above poverty."

¹ Chapman, Jeff; Ettlinger, Michael. Economic Policy Institute. "[The Who and Why of Minimum Wage.](#)" August 6, 2004.

² Klein, Ezra. The Washington Post. "[This Graph is the Best Argument for Raising the Minimum Wage.](#)" February 14, 2013.

³ Konczal, Mike. The Washington Post. "[Economists Agree: Raising the Minimum Wage Reduces Poverty.](#)" January 4, 2014.

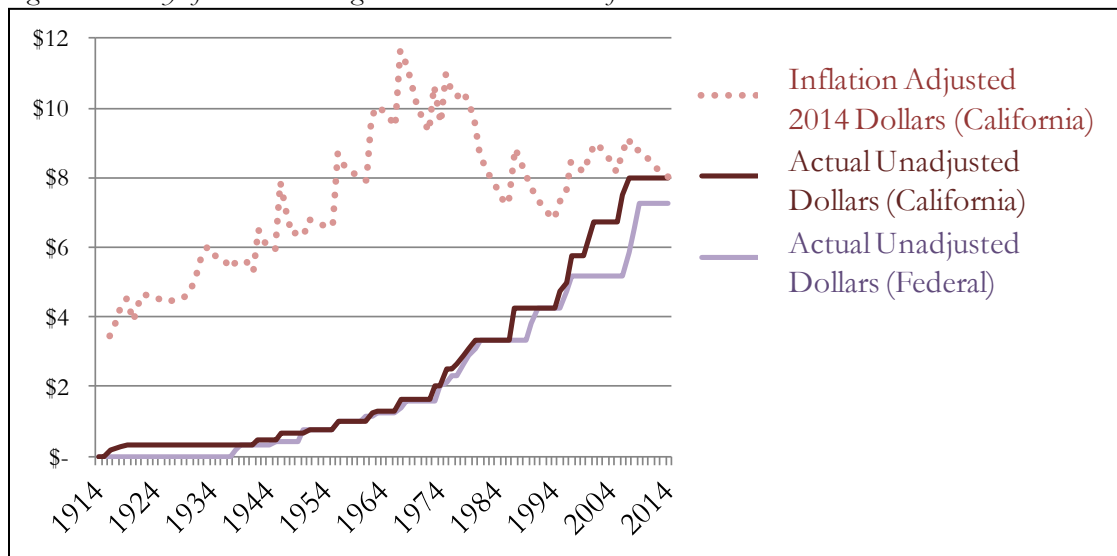
Section III – Minimum Wage is Rising

The Beginnings of Minimum Wage in the United States and California

The first national minimum wage law was established under President Franklin Deleanor Roosevelt in response to the Great Depression,⁴ and was enacted as The Fair Labor Standards Act in 1938. The law was intended to serve multiple purposes. President Roosevelt framed the bill as both an income redistribution program and a moral obligation in his message to Congress. Clearly invoking the workers’ rights and bargaining power argument, he stated that we should be able to give “all our able-bodied working men and women a fair day's pay for a fair day's work” and “A self-supporting and self-respecting democracy can plead no justification for the existence of child labor, no economic reason for chiseling workers’ wages or stretching workers' hours.”

The following figure traces minimum wage as it has changed in California and the nation as a whole. The figure also expresses California’s minimum wage adjusted for inflation.

Figure 1: History of Minimum Wage in the U.S. and in California



Sources: SDCTA, California Department of Industrial Relations, U.S. Bureau of Labor Statistics.

Minimum Wage is Increasing State-wide

Although the federal minimum wage is \$7.25 an hour, states are able to raise this minimum. On September 18, 2013, the California State Legislature passed California Assembly Bill 10 (AB 10), and on September 25, 2013, Governor Jerry Brown signed the bill into law.⁵ AB 10 (which amended Section 1182.12 of the California Labor Code) officially raises the minimum wage in California to \$9 per hour after July 1, 2014, and up to \$10 per hour after January 1, 2016.⁶

⁴ Grossman, Jonathan. United States Department of Labor. “[Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage.](#)”

⁵ LegiScan. “[California Assembly Bill 10.](#)” 2013.

⁶ California Legislative Information. “[AB-10 Minimum Wage: Annual Adjustment.](#)” 2013.

Arguments in favor of the new law center on the idea that the high cost-of-living in California justifies a significant increase in the state's minimum wage. According to the author of AB 10, Assembly Member Luis Alejo, the minimum wage has not kept pace with the cost-of-living in California, and this has resulted in a decrease in purchasing power for the state's workers. Assembly Member Alejo and others have argued that stagnating wages and inflation continue to result in middle-class families falling down the economic ladder and the decline of the middle-class in places like California.

The bill's proponents further argue that this decrease in purchasing power for California's workers has a widespread effect on the state's entire economy. The loss of purchasing power hurts individuals directly by reducing what they are able to purchase while, at the same time, indirectly disadvantaging businesses facing decreased sales. Assembly Member Alejo has concluded that the minimum wage increase associated with AB 10 "Simply gives hardworking Californians the dignity and respect to provide for their families with their own hard-earned wages."⁷

Many business groups opposed AB 10 and argued that the increase in minimum wage represented by the bill will cause substantial damage to small businesses across the state.⁸ The California Restaurant Association argued that an increase in minimum wage means an increase in operating costs for businesses. The groups argued that as operating costs increase, employers will be able to hire fewer and fewer workers, which in turn leads to higher unemployment rates and lower production totals; large businesses with greater profit margins may not be affected, but smaller businesses with thin profit margins will have no choice but to lay off workers as wages increase.⁸ Opponents of the bill have also argued that the minimum wage increase will not have its intended effect because of the true population demographics of minimum wage earners, many of which are teenagers seeking extra income and not poor adults looking to support themselves and their families.⁸

The Proposal Before the San Diego City Council

Then-Interim Mayor Todd Gloria first publicly stated his intent to increase the minimum wage in San Diego during his State of the City address on January 15, 2014.⁹ In the following excerpt from his speech, the issues of income redistribution and poverty reduction are clearly addressed:

"Our local economy is only truly strong if it works for all San Diegans. The high cost of living, coupled with growing income inequality, is a threat to our ability to build a great city. San Diego must not be divided between the very wealthy and the very poor. A great city must have a vibrant and growing middle class. That is why I believe it is time to support an increased minimum wage for San Diego."

⁷ Thompson, Don. Associated Press. "[Bill Would Give California Among Highest Minimum Wages.](#)" September 13, 2013.

⁸ Jennings, Lisa. Nation's Restaurant News. "[California to Increase Minimum Wage.](#)" September 13, 2013.

⁹ Gloria, Todd. "[2014 State of the City Address.](#)" January 14, 2014.

No one who works full-time should live in poverty. According to the Center on Policy Initiatives, 28% of full-time, year-round employees earned less than the \$30,000 which is what is needed to live self-sufficiently in San Diego. A full-time minimum wage job in San Diego pays about half that amount. Although California's minimum wage is scheduled to increase in 2016, that translates into an annual salary of less than \$21,000, which is simply not enough in a city with a high a cost of living like ours."

In an April 23, 2014 news release, Council President Gloria said "This measure will allow more hardworking San Diegans to make ends meet." The phrase "making ends meet" was also the title of a January 2014 report by the Center for Policy Initiatives (CPI).¹⁰ The Research Director at CPI also spoke at the press conference and Council President Gloria has consistently referred to the CPI report.

The CPI report estimates \$2,305 per month to be the income a single adult would need to earn to pay for a "monthly budget for no-frills living." This monthly income equates to \$13.09 per hour for full-time work.

The argument by Council President Gloria is essentially that employers should be required to pay, at a minimum, enough to allow an employee to take care of themselves – to be self-sufficient. That number, according to CPI, is \$13.09. In addition, the proposal would automatically increase the minimum wage each year by linking it to an inflation index and would require employers to allow full-time employees to accumulate sick days at a rate of five days per year.

\$13.09

As mentioned above, the \$13.09 figure proposed by Council President Gloria is consistent with a CPI report entitled "Making Ends Meet" that was released earlier this year. This report was center-stage at both the press conference announcing the details of the proposed ballot measure and the associated news release.

Nearly half (44.8% or \$1,032) of the \$2,305 per month figure is reserved for housing. The amount designated by the report's author for housing is the FY 2014 San Diego County fair market rent for a one-bedroom apartment as reported by the U.S. Department of Housing and Urban Development. The figure is based on surveys and reflects the 40th percentile for rent for standard-quality living conditions of recent movers – meaning that 40 percent of those households that have recently moved are paying less than \$1,032, and an estimated 60 percent are paying more.¹¹

The same source also reports the rental amount for an efficiency apartment of \$939 per month. It would have clearly been more appropriate for CPI to use this figure due to the claimed focus on a "budget for no-frills living." Making that adjustment would bring the hourly wage necessary for a "budget for no-frills living" down to \$12.76.

¹⁰ Center on Policy Initiatives. "[Making Ends Meet 2014](#)." 2014.

¹¹ U.S. Department of Housing and Urban Development. "[FY 2014 Fair Market Rent Documentation System](#)."

While it may be the preference of some low-wage earners to pay more in order to have their own studio apartment, others might prefer to share a two-bedroom apartment. Regardless of preference, a “budget for no-frills living” would take advantage of the cheaper of these reasonable options. Also used in the CPI study, in a similar calculation, is the housing figure from the same source for a two-bedroom apartment of \$1,354 per month. Substituting half of this figure to reflect the cost of sharing a two-bedroom apartment would bring the necessary hourly wage down to \$11.24 for a “no-frills budget.”

Housing Options

All of the figures referred to above are based on the 40th percentile of standard-quality rent as stated earlier. A single adult working 40 hours per week on a tight budget would benefit from choosing the most financially feasible living situation. While this statement is in no way intended to suggest that the source is inappropriate, it is intended to acknowledge that the estimate for housing costs is higher than 40 percent of the stock of like apartments.

While there is a distribution of rents in every community, rents are also largely dependent on neighborhood. According to a fall 2013 survey from the San Diego County Apartment Association, the average price for a two-bedroom apartment in the community of Normal Heights is \$1,266. The average prices for a two-bedroom apartment in the communities of Imperial Beach and North Park are estimated at \$1,249 and \$1,230, respectively. In the context of ensuring that the minimum wage is adequate to fund a “budget for no-frills living,” these three communities, along with sharing a two-bedroom apartment, provide just a few examples of housing options that would all require earning less than \$11.25 per hour if we maintain all other categorical costs produced by CPI: Normal Heights at \$11.00, Imperial Beach at \$10.95, and North Park at \$10.89.

Tying the Minimum Wage to Inflation

The primary concern with automatic increases in minimum wage based on an inflation index such as the Consumer Price Index (CPI) is bypassing the public debate that is necessary to best ensure responsible policy.

If a proposal such as Council President Gloria’s were to be passed by voters, San Diego would not benefit from any information regarding the impacts of raising minimum wage in San Diego that would be uncovered during the four pre-determined increases occurring through 2017. Each year, the minimum wage would increase absent a correction by San Diego voters.

Section IV – Poverty in San Diego

At its core, minimum wage is intended to reduce poverty. If we intend to be successful in reducing poverty, we should start with a thorough understanding of the impoverished in San Diego, rather than hastily moving toward one approach to address it.

As seen in the following figure, San Diego’s poverty rate is lower than that of California or the United States as a whole. Socioeconomic factors such as age, race, and hours-worked play a critical role in assessing poverty in San Diego. Throughout this section, we examine these factors in order to gain an understanding of those in poverty within San Diego.

Figure 2: Poverty Rate by Jurisdiction (2012)

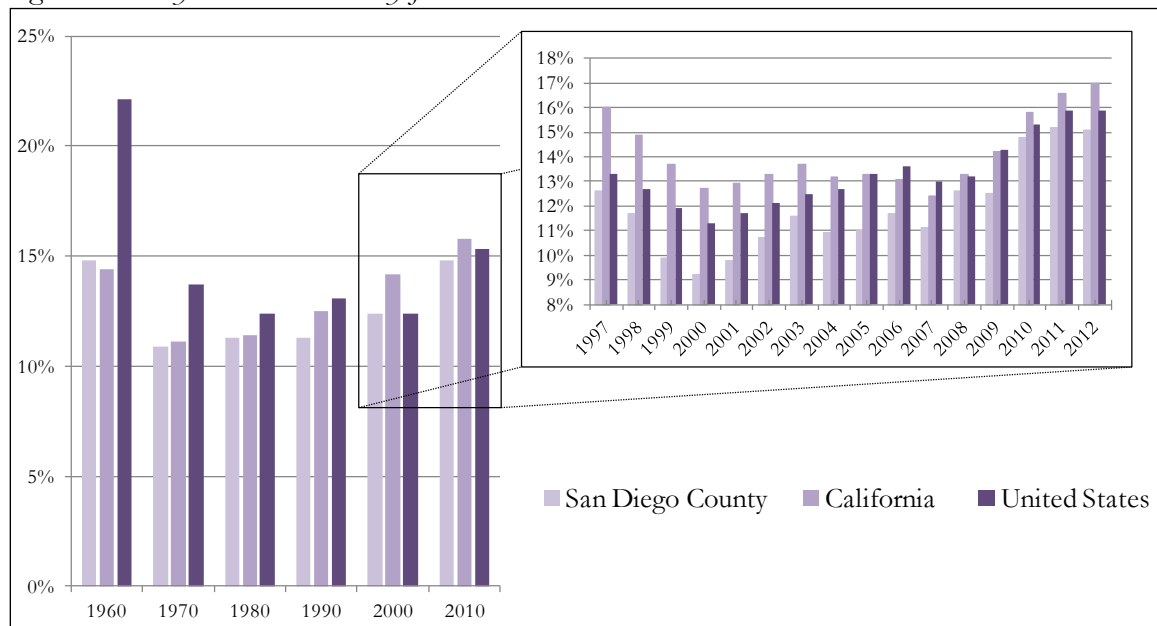
	City of San Diego	San Diego County	California	United States
Poverty Rate	15.5%	15.0%	17.0%	15.9%

Source: American Community Survey

Historical Perspective

Taken in the perspective of the last half-century, poverty rates are currently higher than the average over the past 50 years. Upon reviewing the decennial census, it can be seen that poverty rates in 2010 are higher than any census since 1960. For San Diego County in particular, the poverty rate from 2010 (14.8 percent) is equal to that of 1960 – four years before President Lyndon B. Johnson declared war on poverty.

Figure 3: Poverty Rate Over Time by Jurisdiction



Source: U.S. Census; U.S. Census Small Area Income and Poverty Estimates

Changes in poverty rates are not only apparent with long-term comparisons, but are also significant in recent years. Since 2000, when the poverty rate in San Diego County was 9.2 percent, poverty rates have increased locally, statewide, and nationwide. It is only in the last year of available data (2012) that a decrease in poverty has been seen in San Diego County. Between 2011 and 2012, San Diego County's poverty rate fell from 15.2 percent to 15.1 percent.

Alternative Measures of Poverty

There is no single universally-accepted measure of poverty. However, the United States does have an official poverty measure (OPM) based off poverty thresholds. There are 48 different poverty thresholds that take into account age, family size and number of related children under the age of 18. This metric for poverty was first established using 1963-1964 information from the U.S. Department of Agriculture on food budgets designed for families under economic stress and is updated annually using the Consumer Price Index.¹² Beyond the updates for inflation there have been few updates to how the official poverty rate is measured.

The Census Bureau has another, non-official method for measuring poverty known as the Supplemental Poverty Measure (SPM). The SPM is an attempt to update the official measure so that it more accurately reflects the poverty level of the demographic examined. To do this, the SPM includes a more inclusive measure of income and expenditures, more specific geographic application, and a more well-rounded system for updating poverty thresholds.¹³ Using the SPM generally results in higher calculated poverty rates than indicated by the OPM. These findings are not universally applicable to all demographics as certain groups, like children, appear to experience less poverty under the SPM than the OPM.

There are other organizations besides the U.S. Census Bureau that attempt to measure poverty in ways different than the OPM. One such example that differs from both poverty measures put forth by the U.S. Census Bureau is the California Poverty Measure (CPM). This measure "follows in the spirit of the research of SPM...with some adjustments to account for underreporting of safety net program benefits and for various factors that are unique to California."¹⁴ When adjusting for the CPM, California's 2011 poverty rate was 22.0 percent compared to the OPM of 16.2 percent and San Diego County's poverty rate was 22.7 percent compared to the OPM of 14.9 percent. By taking into account differences in living expenses that may present themselves at the state and county level, the CPM shows a poverty rate that is significantly higher than when those same expenses are assumed to be consistent across boundaries.

While the SPM and the CPM both estimate higher poverty rates overall, not all alternative measures of poverty act in this way. There are some alternative measures of poverty that place the poverty rate below the OPM. For example, prior to the SPM, the U.S. Census Bureau attempted to develop a variety of alternative poverty measures which "tend to show

¹² U.S. Census Bureau. "[How the Census Bureau Measures Poverty](#)." Accessed March 21, 2014.

¹³ Short, Kathleen. U.S. Census Bureau. "[The Research Supplemental Poverty Measure: 2012](#)." November 2013.

¹⁴ Wimer, Christopher; et al. The Stanford Center on Poverty and Inequality. "[A Portrait of Poverty within California Counties and Demographic Groups](#)." October 2013.

lower levels of poverty than the official measure in any year.”¹⁵ Another example in which poverty rates appear lower than the OPM can be seen with the National Academy of Science (NAS) measure of poverty. The NAS developed multiple methods for measuring poverty based on such variables as medical expenses and cost-of-living. Under some of these measures, poverty rates appear to be lower than under the OPM.¹⁶

There are many more possible measures of poverty than those listed, and those presented are far from an exhaustive list. The OPM has the largest collection of data, which allows for both broader and deeper analyses of different demographics. Furthermore, the OPM is still the official measure employed in the determination of different benefits for individuals and, as such, is the most relevant measure of poverty to be examined. The OPM will be used for the remainder of this section unless stated otherwise.

Demographics

Age

In general, the younger the individual, the more likely it is that they are in poverty. This is especially true for children, who are dependent upon a guardian to provide for them. Children under the age of 18 are more greatly impacted by poverty than any other age group in San Diego. Seniors are the least likely to be in poverty with a poverty rate for San Diego County of 9.5 percent. The relationship between age and poverty rates does not only exist for broad categories such as children, adults and seniors, but can be further broken down to show that the relationship between age and poverty rate applies within categories as well.

Figure 4: Poverty Rate by Age and Jurisdiction (2012)

	City of San Diego	San Diego County	California	United States
Children Under 18	21.4%	19.8%	23.8%	22.6%
Adults (18-64)	14.5%	14.3%	15.6%	14.8%
18-24	28.3%	22.0%	24.3%	25.7%
25-34	12.0%	12.9%	16.3%	16.3%
35-44	12.7%	14.9%	15.1%	13.3%
45-54	11.4%	12.5%	12.3%	11.4%
55-64	10.1%	10.5%	11.5%	10.7%
Seniors (65+)	10.0%	9.5%	10.4%	9.5%

Source: U.S. Census American Community Survey

New research shows that the rate of poverty for the elderly may not be properly represented by traditional poverty statistics. This research suggests that the elderly are particularly vulnerable to poverty, especially if they live alone, because of a lack of income and proneness to injury and disease. As such, the UCLA Center for Health Policy Research and the Insight Center for Community Economic Development have created the Elder Index to properly represent the poverty rate of the elderly. This new measure takes into account cost-of-living per county for the elderly. These costs include housing, food and medical expenses.

¹⁵ National Poverty Center. “[Poverty Facts](#).”

¹⁶ National Academy of Science. “[Official and National Academy of Science \(NAS\) Based Poverty Rates: 1999-2012](#).”

These medical expenses can be dramatically higher for elders and “Elder Index calculations that include long-term care costs show that the basic cost of living for elders with disabilities is 20-100 percent higher than for those without disabilities.”¹⁷

With this in mind, the Elder Index calculates the cost-of-living for the elderly so that it may be compared with the federal poverty level. The data shows that the cost-of-living for the elderly is, at minimum, 145 percent of the federal poverty level. This 145 percent is for a single elderly person who owns a home without a mortgage. For those who are single but paying a mortgage on their home, the cost-of-living is 314 percent of the federal poverty level.¹⁸ So, the statistics showing that older people experience lesser rates of poverty may not be true.

It is also the case that younger children are more likely to be affected by poverty than older children. According to The Stanford Center on Poverty and Inequality, 24.9 percent of children under the age of six are below the poverty level compared to 23.1 percent of all children in California.¹⁹

Gender

Women are more likely to be under the poverty level than their male counterparts. In San Diego County, there are nearly 31,000 more women in poverty than men.²⁰ This disparity in poverty rates on the basis of gender is consistent with state and national figures.

Figure 5: Poverty Rate by Gender and Jurisdiction (2012)

	City of San Diego	San Diego County	California	United States
Male	14.4%	14.1%	15.9%	14.6%
Female	16.5%	15.9%	18.0%	17.2%

Source: U.S. Census American Community Survey

This can be partially explained by the large quantity of single mothers and the high poverty rates that are associated with being a single mother. In San Diego County, there are 55,808 single-parent, male-headed families compared to 132,389 single-parent, female-headed families.²¹ A 2013 study from The Center for the Next Generation examined the head of households for these families to assess the poverty rates for single-parents. They found that San Diego County single-parent females who are heads of household had a poverty rate of 32.4 percent, while single-parent households, for both men and women, had a poverty rate of 28.1 percent.²²

In terms of poverty, this gender gap can be traced back over time. The Center for the Next Generation report stated that “while the poverty rates rise and fall in tandem with the

¹⁷ UCLA Center for Health Policy Research. “[The Elder Index™](#).”2012.

¹⁸ UCLA Center for Health Policy Research. “[San Diego County, CA 2011 Elder Economic Security Standard™ Index](#).” Accessed March 21,2014.

¹⁹ Wimer, Christopher; et al. The Stanford Center on Poverty and Inequality. “[A Portrait of Poverty within California Counties and Demographic Groups](#).” October 2013.

²⁰ [American Community Survey](#). 2012

²¹ Ibid.

²² Fuentes, Rey; O’Leary, Ann; Barba, James. The Center for the Next Generation. “[Prosperity Threatened: Perspectives on Childhood Poverty in California](#).” January 6, 2013.

business cycle, at all points in the business cycle the female poverty rate is higher than the male poverty rate.”²³ Examined nationally it can be seen that the gender gap, in terms of percentage difference, is smaller now than it has been in the past, however that wage gap has yet to disappear and can still be seen prominently throughout the nation, the state of California, and locally in San Diego County and the City of San Diego.

Figure 6: National Poverty Rate by Gender, 1966 to 2010



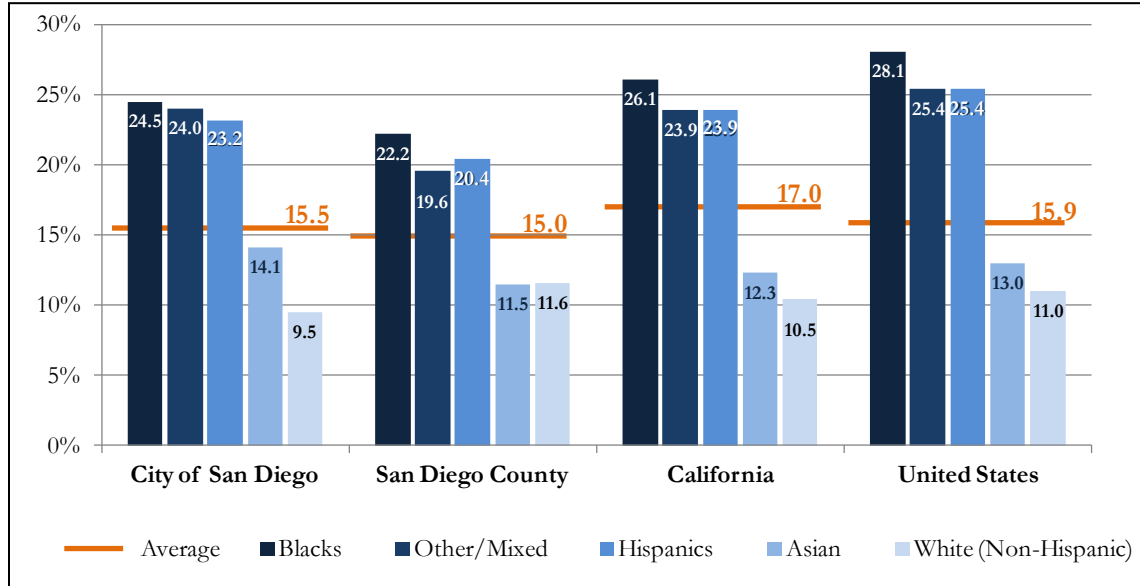
Source: Jacobsen, Joyce P. “Closing the Gender Gap: What Would It Take?” 2013.

Race/Ethnicity

Poverty rates vary greatly depending on race and ethnicity. In all areas examined (city, county, state, and national), whites experienced the lowest level of poverty, followed by Asians, then Hispanics, leaving Blacks and “other” groups (including mixed-race) with the highest rates of poverty. Asians and whites consistently fall below the population average while Blacks and Hispanics consistently fall below that figure.

²³ Jacobsen, Joyce P. “[Closing the Gender Gap: What Would It Take?](#)” 2013.

Figure 7: Poverty by Race and Jurisdiction (2012)



Source: American Community Survey

There exists a critical difference between the City of San Diego and the other three areas examined. While the City of San Diego is mostly urban, San Diego County, California and the United States all have large rural populations. Within cities, there are typically increased concentrations of people in poverty and “sharply divergent patterns of poverty concentration between racial minorities and whites” according to William Julius Wilson, the author of “When Work Disappears: The World of the New Urban Poor.”²⁴

Education

The more educated a person is, the less likely they are to be in poverty. In the City of San Diego, those that do not have a high school diploma or an equivalent level of education experience a poverty rate of 28.9 percent. This rate is higher than any categorization by race, age, gender, or even hours-worked. This demonstrates that education is one of the most, if not the most, important factors in explaining poverty. As seen in Figure 8, those that have attained a high school degree, or equivalent, are almost half as likely as those who have not to be in poverty. Individuals that have a high school education and nothing more experience a 14.9 percent poverty rate.

In addition, education beyond high school corresponds with even lower poverty rates. According to the 2009 report “Closing the Graduation Gap,” “acquiring education and training beyond high school offers further substantial benefits” in reducing poverty.²⁵ Those that earn an Associate’s degree or have attended some form of college experience a poverty rate of 10.2 percent – just above one-third of the poverty rate experienced by individuals with no high school diploma. The population with a Bachelor’s degree or higher have a poverty rate of only 5.6 percent. More education consistently leads to less poverty at the county, state and federal level.

²⁴ Wilson, William Julius. “[When Work Disappears: The World of the New Urban Poor.](#)” 1997.

²⁵ Swanson, Christopher B.. Editorial Projects in Education Research Center. “Closing the Graduation Gap: Educational and Economic Conditions in America’s Largest Cities.” April 2009.

Figure 8: Poverty Rate by Education and Jurisdiction (2012)

	City of San Diego	San Diego County	California	United States
Less than High School Degree	28.9%	24.3%	26.6%	28.0%
High School Graduate (or equivalent)	14.9%	15.7%	16.0%	14.3%
Some College/Associates Degree	10.2%	12.5%	11.4%	10.8%
Bachelor's Degree or Higher	5.6%	5.3%	5.4%	4.5%

Source: American Community Survey

Hours-Worked

Not surprisingly, full-time work leads to less poverty and those that do not work full-time are more likely to be in poverty. In the City of San Diego part-time workers have a poverty rate of 18.2 percent – over six times higher than full-time workers at 2.8 percent. Further, over a quarter of those that do not work are in poverty in the City of San Diego (25.8 percent). This can similarly be seen at the county, state, and national levels.

Figure 9: Poverty Rate by Hours-Worked and Jurisdiction (2012)

	City of San Diego	San Diego County	California	United States
Full-Time	2.8%	2.7%	3.4%	3.0%
Part-Time	18.2%	15.9%	18.2%	18.8%
Did Not Work	25.8%	24.9%	25.0%	23.9%

Source: American Community Survey

Simply dividing hours-worked into these three categories however, fails to capture the whole picture. The category “part-time” can be divided further into either voluntary or involuntary part-time work. As defined by the Bureau of Labor Statistics, involuntary part-time workers “worked fewer than 35 hours because of slack work or business conditions or because they could not find full-time work” for at least one week of the year.²⁶ In contrast, voluntary part-time workers are workers who normally work part-time by choice.²⁷

This distinction is especially significant given that there has been a considerable increase in involuntary part-time workers in recent years. According to the Carsey Institute at the Scholars’ Repository, nationally, the rate for women involved in involuntary part-time work “more than doubled between 2007 and 2012, from 3.6 percent to 7.8 percent, and the rate for men also more than doubled from 2.4 percent in 2007 to 5.9 percent by 2012.”²⁸ The Carsey Institute concluded that with this increase of involuntary part-time workers, it is now extremely relevant to examine this group separately from voluntary part-time workers.²⁹

²⁶ U.S. Bureau of Labor Statistics. “[Report 1041: A Profile of the Working Poor, 2012.](#)” April 2013.

²⁷ Glauber, Rebecca. Carsey Institute at the Scholars’ Repository. “[Wanting More but Working Less: Involuntary Part-Time Employment and Economic Vulnerability.](#)” July 23, 2013.

²⁸ Ibid.

²⁹ Valleta, Rob; Bengali, Leila. Federal Reserve Bank of San Francisco. “[What’s Behind the Increase in Part-Time Work?](#)” August 26, 2013.

Figure 10: National Poverty Rate by Type of Part-Time Work (2012)

	National Poverty Rate
Voluntary Part-Time	11.1%
Involuntary Part-Time	25.8%

Source: U.S. Bureau of Labor Statistics

The poverty rates for both voluntary and involuntary part-time workers are higher than the poverty rates for full-time workers. However, the difference between the two groups is dramatic. Those that voluntarily work part-time are more than three times as likely to be in poverty as those that work full-time. Involuntary part-time workers are more than eight times as likely to be in poverty than full-time workers.

Section V – Minimum Wage and the Economy

In this section, research related to the economic impact of increasing the minimum wage is reconciled with research about poverty, industry research, and interviews with San Diego businesses.

Findings from this section include that many small businesses have legitimate concerns regarding the impact of a minimum wage increase on them. Many predict they will have to downsize and cut hours. While conflicting research suggests that businesses may benefit from increased purchasing power from low-wage workers, it is clear that not all businesses would benefit. Local businesses expressed several concerns including pressure to increase prices and reduce payroll. Harry Schwartz, co-owner of Ace Hardware Downtown, is concerned that the higher prices will push even more customers to online retailers. He is also reconsidering expansion plans in the City of San Diego.

Research estimating the effectiveness of increasing the minimum wage at decreasing poverty is more clear. When businesses are forced to pay increased wages, most of those dollars do not reach families living in poverty. Increasing the minimum wage is an inefficient tool for reducing poverty because the majority of low-wage workers do not live in low-income households. People living in poverty are the ones who are supposed to benefit from increases to the minimum wage, but relatively few do. Studies show less than 20 cents of each dollar in increased wages reach families living in poverty. This is consistent with the percentage of low-wage earners living below the poverty line. Average income for families with minimum wage earners is over \$53,000 a year.

Economic research points to workforce development and education being at the heart of the diminishing wages and poverty issues in the United States. Globalization and technology including automation have reduced the need for low-skilled employees. One study estimates that the U.S. economy has lost two million clerical jobs due to automation since 2007. Another study estimates that approximately 47 percent of U.S. jobs are at risk of being replaced by computerization over the next two decades. This means education and workforce development provide the best opportunities for adapting to our changing global economy.

Profile of Minimum Wage Earners

Age

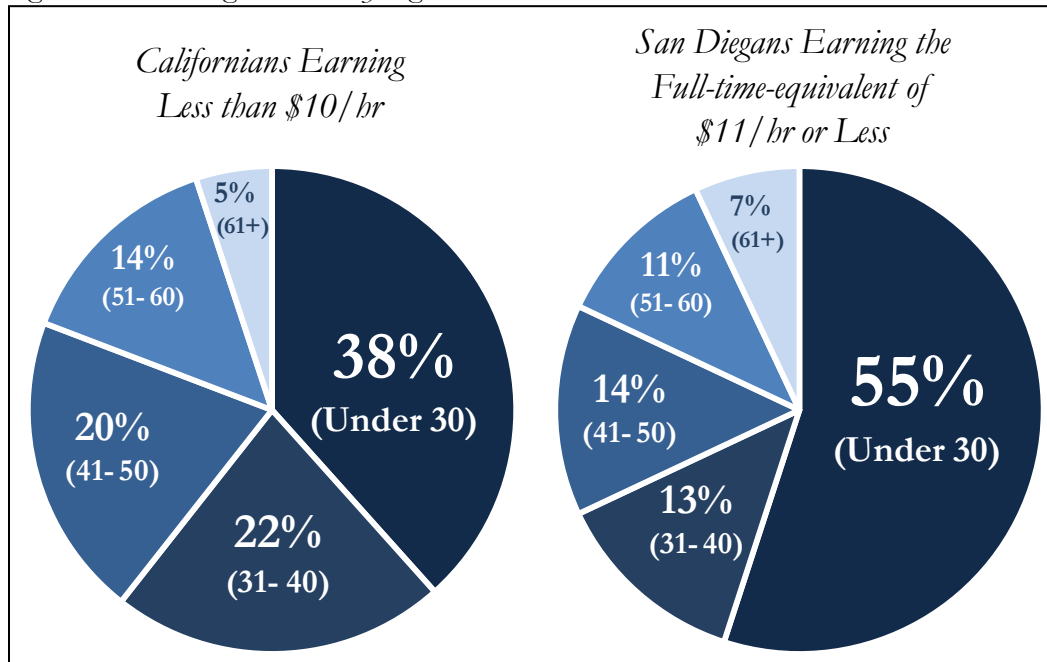
Above all other demographic factors, age is the strongest predictor in regards to whether or not a worker earns the minimum wage. As stated in a 2013 U.S. Bureau of Labor Statistics Report, “while workers under age 25 represented only about one-fifth of hourly paid workers, they made up about half of those paid the federal minimum wage.”³⁰ Nearly 20 percent of workers age 16-19 earn the federal minimum wage or less, compared to three percent of workers 25 or older.³¹

³⁰ U.S. Bureau of Labor Statistics. “[Minimum Wage Workers Account for 4.7 Percent of Hourly Paid Worker in 2012.](#)” March 25, 2013.

³¹ U.S. Bureau of Labor Statistics. “[Characteristic of Minimum Wage Workers, 2013.](#)” March 2014.

In California, young people earn the minimum wage more often than any other age group – 38.5 percent of individuals earning less than \$10 per hour in California are under the age of 30 according to a Sacramento Bee data analysis.³² A recent study by the National University System Institute for Policy Research stated that 55 percent of low-wage earners (defined as earning the full-time equivalent of \$11 or less) in the City of San Diego are under the age of 30.³³

Figure 11: Low-Wage Workers by Age



Source: SDCTA, Sacramento Bee, National University System Institute for Policy Research

Gender

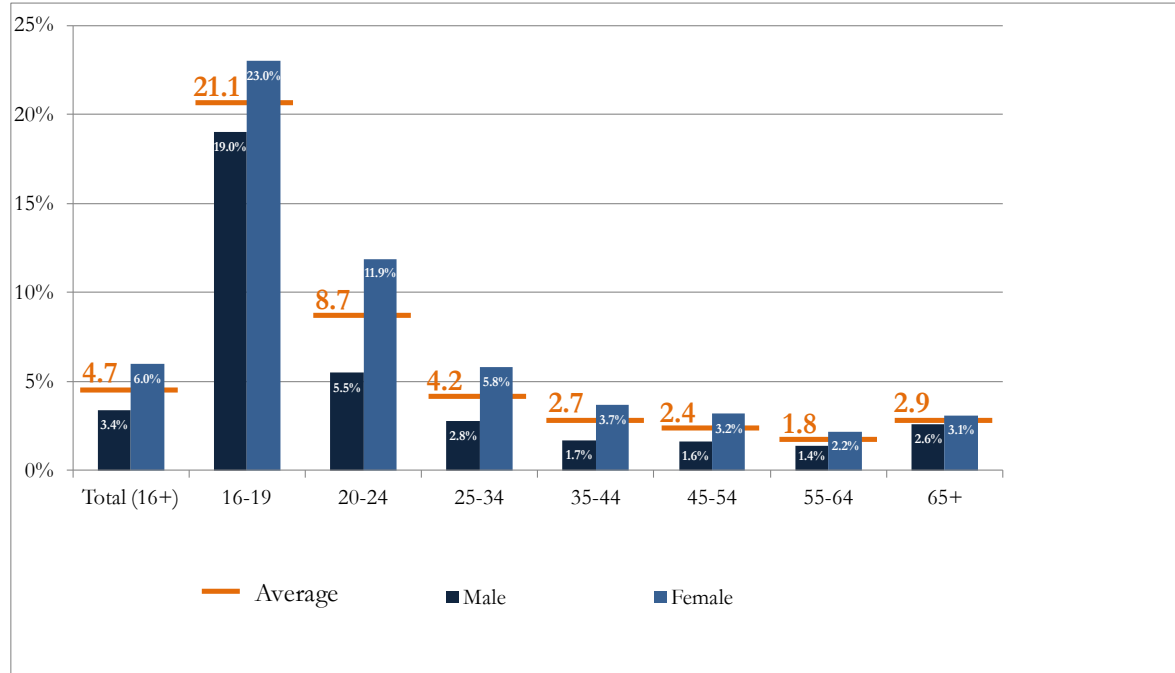
According to the U.S. Bureau of Labor Statistics, “about five percent of women had wages at or below the federal minimum wage compared to about three percent of men.”³⁴ This disparity in the rates of minimum wage earners between men and women holds regardless of age, as can be seen in Figure 12. The difference between the number of men and women earning the federal minimum wage is not isolated to one age group. Women are more likely to earn the minimum wage or less amongst all age groups. The largest difference between the two genders exists in the two youngest age groups. As older groups are examined this disparity closes significantly, but is never fully eliminated.

³² Reese, Phillip. The Sacramento Bee. [“California Minimum Wage Hike Would Boost Pay for More than 1 Million Full Time Workers.”](#) September 12, 2013.

³³ National University System Institute for Policy Research. [“San Diego’s Low Wage Workforce: A Complex Portrait.”](#) May 21, 2014.

³⁴ U.S. Bureau of Labor Statistics. [“Characteristic of Minimum Wage Workers, 2013.”](#) March 2014.

Figure 12: U.S. Workers Earning the Federal Minimum Wage by Age & Gender (2012)



Source: U.S. Bureau of Labor Statistics

In the City of San Diego, there are slightly more women than men (52 percent versus 48 percent) in the low-wage workforce, while men make up a larger portion of the overall workforce.³⁵

Race/Ethnicity

In California, 61.7 percent of those that earn under \$10 per hour are Hispanic or Latino,³⁶ while only 38.2 percent of the population of California is Hispanic or Latino.³⁷ For the City of San Diego, whites slightly outnumber Latinos in the low-wage workforce, but Hispanics/Latinos tend to be highly overrepresented. Hispanics/Latinos make up 38 percent of the low-wage workforce despite making up only 28 percent of the total city workforce and 30 percent of the city's total population.³⁸

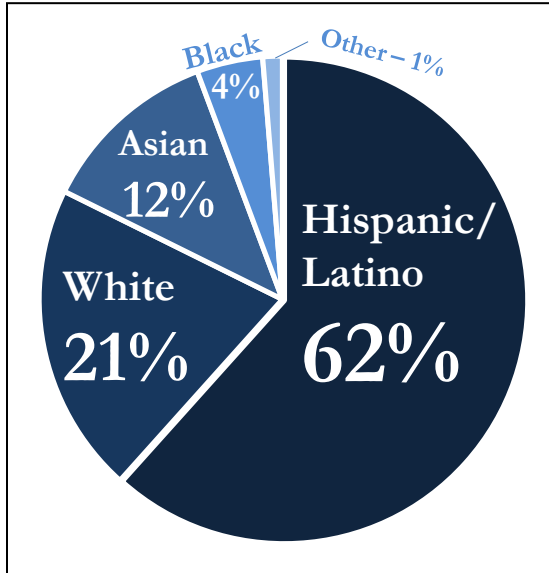
³⁵ National University System Institute for Policy Research. "[San Diego's Low Wage Workforce: A Complex Portrait](#)." May 21, 2014.

³⁶ Reese, Phillip. The Sacramento Bee. "[California Minimum Wage Hike Would Boost Pay for More than 1 Million Full Time Workers](#)." September 12, 2013.

³⁷ [American Community Survey](#). 2012.

³⁸ National University System Institute for Policy Research. "[San Diego's Low Wage Workforce: A Complex Portrait](#)." May 21, 2014.

Figure 13: Californians Earning \$10/hr or Less by Race



Source: SDCTA, Sacramento Bee

Education

Individuals with lower educational achievement are more likely to earn the minimum wage than those with more education. Nationally, “10 percent of those without a high school diploma earn the federal minimum wage or less, compared to about 4 percent of those who had a high school diploma (with no college) and about 2 percent of college graduates.”³⁹ However, it is important to note that many teenagers who earn minimum wage have yet to graduate high school, but will go on to do so.

Similar to national data, Californians with less education are more likely to earn lower wages. The largest group earning less than \$10 per hour in California is those that have not graduated high school, representing 36.2 percent of all people earning less than \$10 per hour.⁴⁰ It is important to note that the data for California only includes full-time workers so it is unlikely that many high school students, who have yet to graduate, add greatly to this figure. Californians with at least a 4-year college degree have the lowest poverty rate, at 10.8 percent.⁴¹

In the City of San Diego, 23 percent of low-wage workers have a high school diploma or its equivalency as their highest attained level of education.⁴² At the same time, 17 percent of low-wage workers have not graduated high school at all, only 16 percent have a bachelor’s degree as their highest attained level of education, and only 7 percent have earned a graduate’s degree.⁴³

³⁹ U.S. Bureau of Labor Statistics. “[Characteristics of Minimum Wage Workers, 2013.](#)” March 2014.

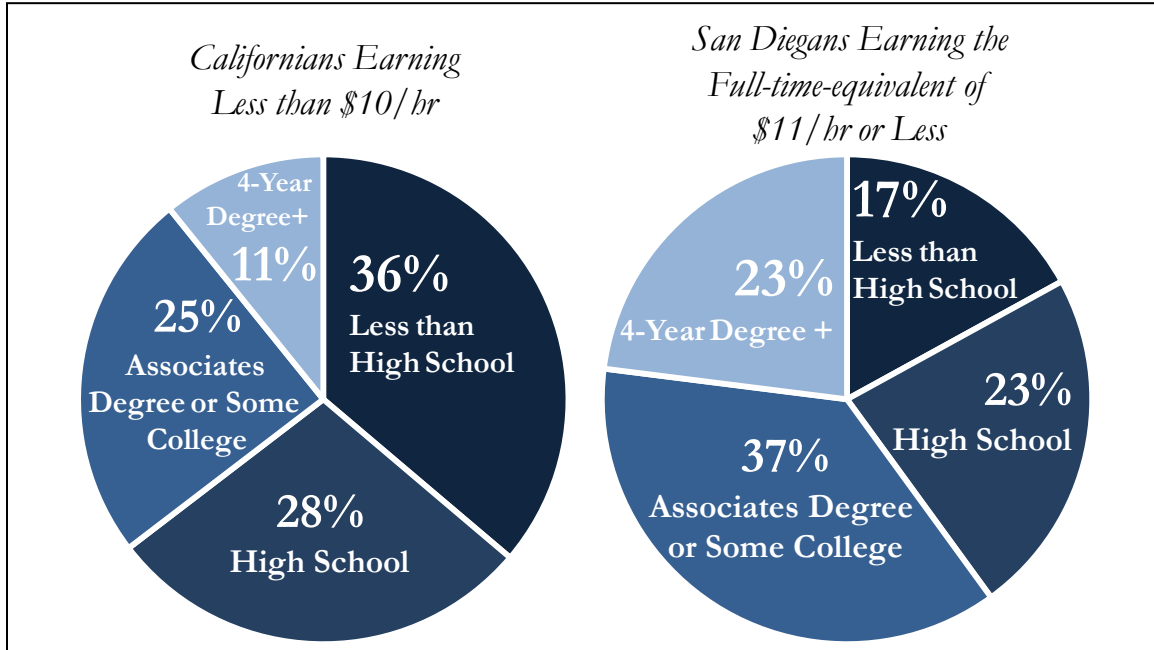
⁴⁰ Reese, Phillip. The Sacramento Bee. “[California Minimum Wage Hike Would Boost Pay for More than 1 Million Full Time Workers.](#)” September 12, 2013.

⁴¹ Ibid.

⁴² National University System Institute for Policy Research. “[San Diego’s Low Wage Workforce: A Complex Portrait.](#)” May 21, 2014.

⁴³ Ibid.

Figure 14: Californians Earning \$10/hr or Less by Highest Obtained Level of Education



Source: SDCTA, Sacramento Bee, National University System Institute for Policy Research

Family Income

In the City of San Diego, a plurality of households with low-wage workers spend between 21 and 30 percent of their household income on rent according to the National University System Institute for Policy Research. Also, among households with low-wage workers, 29 percent have household incomes below the federal poverty guidelines for a household of four people or less.⁴⁴

Most minimum wage earners however, are not the sole source of income for their family. Average income for families with minimum wage earners is over \$53,000 a year, according to The Heritage Foundation. Average family income for minimum wage earners under the age of 25 is \$65,896 per year.⁴⁵ These figures demonstrate that people earning minimum wage are not necessarily poor. Though they may have a higher propensity for poverty, there are a significant amount of minimum wage earners that have relatively high family incomes.

⁴⁴ National University System Institute for Policy Research. "[San Diego's Low Wage Workforce: A Complex Portrait](#)." May 21, 2014.

⁴⁵ Sherk, James. The Heritage Foundation. "[Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents](#)." February 28, 2013.

Occupation

In the City of San Diego, 73 percent of low-wage workers are employed by for-profit businesses, seven percent are non-profit employees, seventeen percent work for government and the remaining three percent are self-employed. Restaurants and other food service establishments are by far the most common employers of low-wage workers in the city.⁴⁶ The second largest employers of low-wage workers are elementary and secondary schools. Next are colleges and universities, including junior colleges, followed by the construction industry and grocery stores.⁴⁷

Tourism, including hospitality, is one of the drivers of the San Diego regional economy. As a “traded economy” tourism brings spending into the region, creating jobs that would otherwise not exist in San Diego. According to another report conducted by the National University System Institute for Policy Research, restaurant sales are also the largest contributor of taxable retail sales in San Diego County grossing more than \$2.9 billion in sales.⁴⁸ According to the report, one of every 12 workers in San Diego County is a restaurant employee. The City of San Diego City has 3,315 restaurants employing a total of 51,717 workers. The report also found that some restaurant-industry occupational wages are higher than officially reported. Directly-tipped employees in San Diego restaurants receive an effective hourly wage of \$28.74. Workers who are only indirectly tipped make an hourly wage estimated at \$16.49.

Due to significant labor costs, restaurants generally operate on some of the slimmest profit margins of any industry at 3-to-4 percent according to a National Restaurant Association report.⁴⁹ Thin profit margins are one measure of competitiveness in an industry and can signal the inability for an industry to absorb additional costs. Any regulatory or legislative changes could potentially force restaurant owners and operators to cut jobs and raise prices.

⁴⁶ National University System Institute for Policy Research. “[San Diego’s Low Wage Workforce: A Complex Portrait](#).” May 21, 2014.

⁴⁷ Ibid.

⁴⁸ California Restaurant Association; National University System Institute for Policy Research. “[The Restaurant Economy: Measuring the Impact of the Food Service Industry in San Diego](#).” 2012.

⁴⁹ National Restaurant Association. “2010 Public Affairs Conference.” 2010.

Federal Economic Impacts

In February of 2014, the United States Congressional Budget Office released a report detailing the impacts of increasing the federal minimum wage. The report found that there would be both positive and negative economic impacts as a result of increasing the federal minimum wage. The following figure summarizes the results.

Figure 15: The Economic Impacts of Increasing the Federal Minimum Wage

Positive Impacts	Negative Impacts
Raising minimum wage from \$7.25 to \$10.10 an hour would lift nearly a million people out of poverty.	The increased earnings for low-wage workers resulting from the higher minimum wage would total \$31 billion by CBO's estimate. However, just 19 percent of the \$31 billion would accrue to families with earnings below the poverty threshold. Twenty-nine percent would accrue to families earning more than three times the poverty threshold.
In total, more than 16.5 million workers would be affected by the increase.	A \$10.10 option would reduce total employment by about 500,000 workers.
Increased earning for low-wage workers resulting from the higher minimum wage would total \$31 billion.	Increased earnings for some workers would be accompanied by reductions in real (inflation-adjusted) income.

Source: SDCTA, U.S. Congressional Budget Office⁵⁰

Income Redistribution

Minimum wage laws have the effect of redistributing income in both intended and unintended directions. Redistribution occurs not only from employers of low-skilled labor to low-skilled employees as intended, but also from the low-income population as a whole to low-skilled workers (many of whom are not living in impoverished households). The latter is due to market distortions and inflationary pressures.

Additionally, increasing the minimum wage shifts the burden of providing a social safety net from a variety of taxpayer-funded sources including federal, state and local government, to the market for goods and services produced by low-skill workers. This market is then prone

⁵⁰ U.S. Congressional Budget Office. "[The Effects of a Minimum-Wage Increase on Employment and Family Income.](#)" February 18, 2014.

to inflationary pressures reducing the purchasing power for consumers, who are disproportionately low-income and impoverished.

Intended Income Redistribution

In 2013, the Los Angeles group Economic Roundtable produced a study entitled “Effects of a Fifteen Dollar an Hour Minimum Wage in the City of Los Angeles” that addresses the issue of the intended income redistribution created through minimum wage increases. This study is the focus of this section because it is recent and focused on a large southern California city; however, several studies have come to similar conclusions.

The 2013 Economic Roundtable study examines the intended effects of increasing the minimum wage in the City of Los Angeles to a “living wage,” which is “conservatively defined as \$15 an hour based on the criteria set in the Fair Labor Standards Act.”⁵¹ Ultimately, this study finds that workers, businesses and government programs stand to gain from an increase in the minimum wage in six expected ways:

Worker Impacts:

1. Low-wage workers will be paid more and their standard of living will improve.
2. More money will stay local rather than going to stockholders who live elsewhere.
3. The low-wage workers who receive the pay increase are likely to spend all of the money.

Industry Impacts:

4. Businesses will benefit from having more money spent in the local economy.
5. Businesses will benefit from having a higher-paid labor force that is more stably housed, reducing employee turnover and the associated costs for recruiting and training new employees.

Government Impacts:

6. Increased sales and employment would generate an estimated \$1.3 billion in increased annual public revenue; \$331 million of that amount would go to social safety net programs with the remainder going to general public revenue subject to legislative budget allocations. Of this general public revenue, about 15 percent is expected to return to the local municipality totaling \$152 million per year.

An increase in the minimum wage would lead to higher earnings for low-wage workers. The average earnings for low-wage full-time workers in Los Angeles at the time of the study is estimated in the report at \$9.55 per hour. An increase in the minimum wage to \$15 an hour would result in an annual earnings increase of at least \$11,729. Additionally, the average part-time low-wage worker in Los Angeles made \$8.89 per hour and could expect to experience an annual yearly earnings increase of \$6,297 according to the study.

The study also finds that low-wage workers are more likely to spend their money than those that make higher wages, who tend to save or invest at a higher rate.⁵² The conclusion of the authors is that local businesses will experience more revenue from low-wage workers who

⁵¹ Economic Roundtable, Los Angeles County Federation of Labor, AFL-CIO. “[Effects of a Fifteen Dollar an Hour Minimum Wage in the City of Los Angeles.](#)” 2013.

⁵² Ibid.

would be able to spend more after wages are increased. The authors calculate that this increase in spending translates to increased sales for local businesses that would lead to the hiring of an estimated 64,700 new employees.⁵³

Increases in spending and revenue for low-wage workers are anticipated by the authors to lead to \$1.3 billion in increased tax revenue.⁵⁴ The study also predicts that the increased minimum wage would decrease dependence on government safety-net programs as fewer low-wage workers would draw from these programs.⁵⁵

Unintended Income Redistribution

A 2001 Stanford University study entitled “The Winners and Losers of Federal and State Minimum Wages” argues that the result of minimum wage laws are similar to a regressive tax system in which relatively lower-income consumers bear the brunt of negative economic effects because they are more likely to be impacted by increased prices for goods and services:

“Overall, consumers would pay \$31 billion annually to fund a minimum wage increase of \$1.50. These costs are incurred through price increases of up to 5 percent on a broad range of goods and services produced throughout the United States. For families, the additional costs annually amount to a 1.7 to 2.4 percent increase in the effective sales tax, with the rates the highest for the poorest families.”⁵⁶

Increasing the minimum wage is a relatively ineffective tool for reducing poverty because the majority of low-wage workers no longer live in low-wage households.⁵⁷ In a 1996 study conducted by the Employment Policies Institute, researchers identified a “weakening relationship between low wages and low household income.”⁵⁸ They concluded that on average, less than 20 cents of each dollar in increased wages reaches families living below the poverty line. When minimum wage was increased, its effect was found to center on low-wage workers living in higher income households, instead of low-wage workers living in impoverished households.

The Federal Reserve Bank of San Francisco concluded in a similar 1999 analysis that “a relatively small proportion of the increased wage bill is received by the neediest families.” This led the authors to conclude that “minimum wages may not be an efficient mechanism for assisting poor and low-income households.”⁵⁹

In the Stanford University study from 2001, economists found that while one in four of the poorest workers gained from an increase in the minimum wage, three in four of the poorest

⁵³ Economic Roundtable, Los Angeles County Federation of Labor, AFL-CIO. “[Effects of a Fifteen Dollar an Hour Minimum Wage in the City of Los Angeles.](#)” 2013.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ MaCurdy, Thomas; McIntyre, Frank. Stanford University. “[Winners and Losers of Federal and State Minimum Wages.](#)” June 2001.

⁵⁷ Burhauser, Richard; et. al. Employment Policies Institute. “[Public Policies for the Working Poor: The Earned Income Tax Credit versus Minimum Wage Legislation.](#)” November 1995.

⁵⁸ Ibid.

⁵⁹ Couch, Kenneth. Federal Reserve Bank of San Francisco. “[Distribution and Employment Impacts of Raising the Minimum Wage.](#)” February 19, 1999.

workers actually suffered because of the higher prices associated with higher wages.⁶⁰ The authors found that when the benefits and costs of minimum wage were considered, “low-wage families are not necessarily low-income families” and “when minimum wage increases are paid for by higher prices, prices rise in a way that implies a burden more regressive than a sales tax.”⁶¹

Automation

Increasing technological developments in the means of production, distribution and services have led to a decreasing availability of jobs, particularly with low-wage earners. Technology is outpacing economic growth, especially since the 1970s.⁶² As a result, low-skilled jobs are being replaced by fewer high-skilled ones supported by technology. Microprocessors and computers are increasing the need for managers and highly-specialized workers, and decreasing the demand for clerical positions, production workers and less educated workers.⁶³ This is creating what has been called, “an epidemic of technological unemployment.”⁶⁴ If this trend is improperly managed, the economic disparity will continue to grow and exacerbate the problem even further. According to Janemarie Mulvery, chief economist for the U.S. Small Business Administration’s Office of Advocacy:

“We’ve seen the substitution of capital for labor. We’re moving toward more automation – toward the grocery store self checkout line... Manufacturing is much more automated. They need fewer workers.”⁶⁵

In a 2013 study conducted by Oxford University, researchers estimated that “approximately 47 percent of U.S. employment was at a high risk of being replaced by computerization over the next couple of decades.”⁶⁶ Since 2007, the U.S. economy has lost two million clerical jobs because of automation, according to the American Enterprise Institute (AEI).⁶⁷ These include jobs like bookkeepers, bank tellers, file clerks and cashiers.⁶⁸ This is reaffirmed by Microsoft founder Bill Gates. In March 2014, Gates addressed the AEI, stating:

“Software substitution, whether it’s for drivers or waiters or nurses ... it’s progressing. ... Technology over time will reduce demand for jobs, particularly at the lower end of skill set. ... 20 years from now, labor demand for lots of skill sets will be substantially lower. I don’t think people have that in their mental model.”⁶⁹

⁶⁰ MaCurdy, Thomas; McIntyre, Frank. Stanford University. Employment Policies Institute. “[Winners and Loser of Federal and State Minimum Wages](#).” June 2001.

⁶¹ Ibid.

⁶² Katz, Lawrence. Harvard University and the National Bureau of Economic Research. “[Technological Change, Computerization, and the Wage Structure](#).” May 25, 1999.

⁶³ Ibid

⁶⁴ Marchant, Gary; et. al. Journal of Evolution and Technology. “[Technology, Unemployment and Policy Option: Navigating the Transition to a Better World](#).” February 2014.

⁶⁵ Kurtz, Annalyn; Yellin, Tal. CNN Money. “[Failure to Launch. Businesses aren’t creating enough jobs](#).”

⁶⁶ Frey, Carl; Osborne, Michael. Oxford University. “[The Future of Employment: How Susceptible Are Jobs to Computerization](#).” September 17, 2013.

⁶⁷ Pethokoukis, James. American Enterprise Institute. “[Technological Unemployment and the loss of 2 Million Jobs since 2007](#).” April 2, 2013.

⁶⁸ Ibid

⁶⁹ Bort, Julie. Business Insider. “[Bill Gates: People Don’t Realize How Many Jobs Will Soon Be Replaced By Bots](#).” March 13, 2014.

It is imperative for policy-makers to understand how employment opportunities will be affected by new technologies. By enacting policies that recognize this trend, the government can minimize the economic and social repercussions.

One recent trend in regards to automation is the introduction of self-checkout kiosks at many grocery and retail stores across the country. The use of these kiosks is increasing rapidly and, according to ILH Consulting Group, in the next few years the use of self-checkouts will increase by 10 percent.⁷⁰ Self-checkout technology makes it possible for one employee to effectively replace five to ten cashiers. As the minimum wage increases in California and other states, automation becomes increasingly more cost-efficient.

According to the Ludwig von Mises Institute, “when governments pass laws that make low-skill labor more expensive, firms search for substitutes for low-skill labor.”⁷¹ When minimum wage increases, employers must spend more to maintain the same level of employment. The cost of automation technology then becomes cheaper, relative to low-skilled labor.

One recent study conducted by Oxford University speculates that “As technology races ahead, low-skill workers will reallocate to tasks that are non-susceptible to computerization.”⁷² However, unless these same workers are able to acquire the creative and social skills needed for other kinds of work, they may find themselves unemployed for long periods of time.

Increased Prices

When prices rise, consumers and employers are affected. Increasing the minimum wage will increase the sales prices of those goods and services produced or delivered by low-wage workers, lessening consumers’ purchasing power. This will have a relatively greater impact on those living at or near the poverty line than for those above it.

In a 2006 study conducted by the Employment Policies Institute, researchers found that a ten percent increase in minimum wage was followed by a 0.4 to 0.7 percent increase in restaurant prices. For the fast food sector, prices increased by 1.5 percent.⁷³ A 2012 study by the New Labor Forum found that increasing minimum wage by 20 percent resulted in a one to two percent increase in restaurant prices.⁷⁴

In 1998, the National Restaurant Association reported that after the minimum wage increase of 1996, 42 percent of restaurateurs raised their prices. On average, menu prices increased by 2.6 percent, outpacing inflation which was 1.7 percent at the time.

⁷⁰ KioskMarketplace.com. “[Self-checkout Kiosks: Love ‘em or leave ‘em?](#)” April 9, 2012.

⁷¹ Carden, Art. Ludwig von Mises Institute. “[Economics in the Self-Checkout Line: When you Raise the Cost of Labor...](#)” November 23, 2011.

⁷² Frey, Carl Benedikt; Osborne, Michael A. “[The Future of Employment: How Susceptible Are Jobs to Computerisation?](#)” September 17, 2013.

⁷³ Aaronson, Daniel; French, Eric. Employment Policies Institute. “[Output Prices and the Minimum Wage.](#)” June 15, 2006.

⁷⁴ Wicks, Jeannette. New Labor Forum. “[The Working Poor, A Booming Demographic.](#)” November 1, 2012.

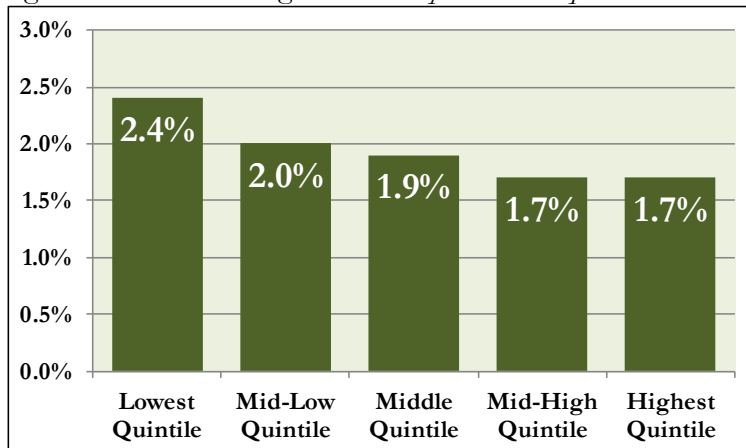
While these impacts are relatively low, the degree to which they are realized will be dependent on numerous factors. Based on interviews with local employers, price increases may be considerably higher in San Diego due to continuing dramatic inflation in food markets and other economic pressures.

In addition, it is not clear how linear the relationship between minimum wage increases and prices is. The first ten percent increase in minimum wage may result in a low level of inflation, while the inflation caused by repeated substantial increases may be passed on to a much greater extent as additional efficiencies are harder and harder to find. It should be expected that wage increases will be passed on to consumers to a greater degree as the minimum wage is incrementally raised. The San Diego City Council’s proposal would result in a 12.5 percent increase, followed by a 23.2 percent increase one year later, followed by a 9.0 percent increase one year after that, and an 8.3 percent increase one year after that.

The Employment Policies Institute concluded that policymakers should be looking towards state-controlled tax credits. These tax credits would not risk inflation that would impose a financial burden on low-income families, mimicking a regressive tax system.

“What is even worse for the poor is that they end up paying for benefits that go to the nonpoor. Expressed as a percentage of families’ total non-durable consumption, the extra cost in higher prices is slightly above one percent for families of all income groups. If equivalent revenue were raised from families by the imposition of a federal sales tax, the analysis demonstrates that poor families would pay a higher tax rate to finance the costs of minimum wages than more affluent families. ... families with incomes in the lowest 20 percent would pay the equivalent of a 2.4 percent sales tax, whereas families with incomes in the top twenty percent and top forty percent would pay the equivalent of a 1.7 percent sales tax. Thus, the lowest income group would pay a higher rate than the top income groups.”⁷⁵

Figure 16: Minimum Wage Burden Expressed as Equivalent Sales Tax Levy by Income Quintile



Source: Employment Policies Institute

⁷⁵ MaCurdy, Thomas; McIntyre, Frank. Stanford University. [“Winners and Losers of Federal and State Minimum Wages.”](#) June 2001.

Informal Economy

One potential impact of changing the legal minimum wage is to encourage people who may no longer be able to find work to move to more unregulated parts of the economy. Economists often divide the labor market into a formal regulated sector and an informal, unregulated sector.

Defining the Informal Economy

The informal sector is difficult to define. As opposed to the formal sectors where work and work environments are regulated, work in the informal sector is largely unregulated. The International Labor Organization has defined this sector as the “informal economy” consisting of “all activities that are, in law or practice, not covered or insufficiently covered by formal arrangement.”⁷⁶ This concept includes forms of self-employment and work being done outside of existing legal frameworks. The World Bank recently released country-by-country estimates of the size of the informal economy as a percentage of GDP.⁷⁷ The report found that from 1999-2007, the informal economy in the United States was nearly 8.5 percent of GDP.

The Relationship between Minimum Wage and the Informal Economy

According to the World Bank, increasing regulations lead to an increase in labor costs in the formal economy and an increase in the size of the informal economy. Although the World Bank’s theory has seen limited testing, researchers have found that higher levels of state regulation and higher tax rates tend to increase the size of the informal economy.⁷⁸ Other studies have found that increased labor market regulations lead to greater employment in the informal economy across countries.⁷⁹ However, neither of these apply specifically to the minimum wage, as they use broad-based indicators of labor market regulation, of which minimum wage law is just a small part.

⁷⁶ International Labor Organization “[Decent Work and the Informal Economy](#).”

⁷⁷ Schneider, Friedrich; Buehn, Andreas; Montenegro Caludio. “[Shadow Economies all over the World New Estimates for 162 Countries from 1999 to 2007](#).” July 2010

⁷⁸ Johnson, Simon; al et. American Economic Review. “[Regulatory Discretion and the Unofficial Economy](#).”

⁷⁹ Friedman, Eric; Johnson, Simon; et al. Journal of Public Economics. “[Dodging the Grabbing Hand: the Determinants of Unofficial Activity in 69 Countries](#).” June 2000.



Section VI – Impacts on Businesses

Most of this study is based on an extensive review of relevant academic literature including numerous studies and research briefs from universities and reputable research organizations. The intent of this section is to reconcile the findings and conclusions of these sources with the experiences and realities of some San Diego businesses.

Consistent with academic research on minimum wage, the interviews performed confirmed that many businesses predict that substantial increases in minimum wage will result in the need to downsize and cut employee hours. Some businesses may benefit from increased purchasing power of low-wage workers as predicted in some academic research, however, others will not. Local businesses expressed several concerns including pressure to increase prices and reduce payroll.

The interviews performed also made apparent the concern of businesses that substantial minimum wage increases may force adjustments that are well beyond how businesses would attempt to offset more modest increases.

While a full scientific survey was beyond the scope of this study, several San Diego businesses were consulted to ensure this study is informed by the local business climate and local economic realities. The following four profiles are based on some of these interviews. The information presented has been confirmed by each source prior to the release of this study.





Jim Phillips manages 70 employees in Kearny Mesa as General Manager of Studio Diner. Jim agreed to provide information about Studio Diner's operations to provide context to the minimum wage discussion specific to San Diego.

Facing meat and seafood prices higher than ever before, Studio Diner recently had to raise prices by about 8%. Customers adjusted to the price increases in-part, by choosing less expensive meals. The restaurant's customers will not accept the price increases that would be necessary to maintain Studio Diner's anticipated 4%-5% profit margin. Jim is trying to offset "food prices that are rising daily. We can't raise our prices daily."

Jim believes additional price increases will be unavoidable to compensate for increases in minimum wage, however he also knows that additional price increases won't be enough. If minimum wage increases to \$13.09, Jim may ask servers to cover more tables at a time and clean their own tables. He reluctantly said, "I will be forced to lay off people."

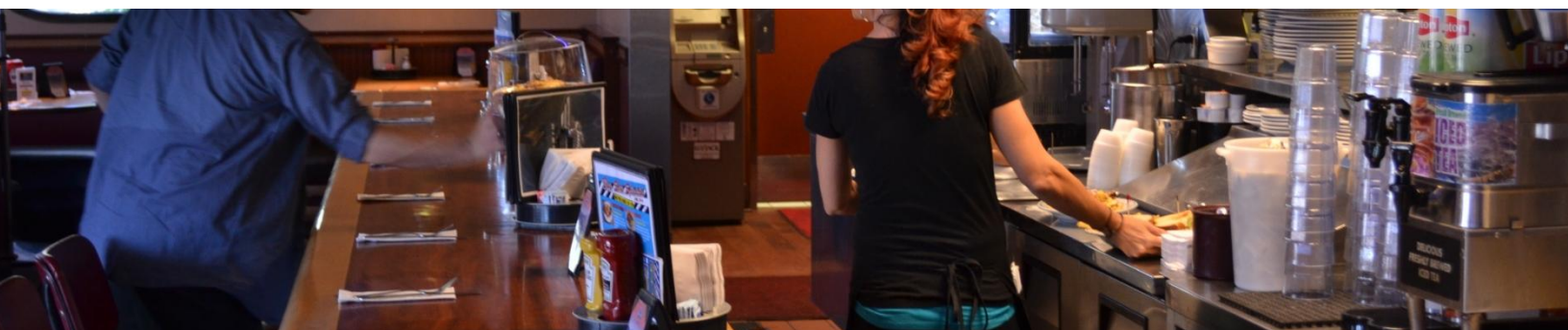
Servers at Studio Diner earn an hourly wage at or just above minimum wage, however most of their compensation comes in the form of tips. Jim is able to provide information about tips more accurately than ever as approximately 85% of tips are now given on credit cards. After tips, servers typically earn between \$24 and \$34 per hour depending on skill level as well as shift. Most servers are between 22 and 30 years old and work 4, 6-hour shifts per week. Many choose not to work full-time. None of his servers work 40 hours per week.

Runners and bussers also receive some tips, bringing their \$9 hourly wage to an effective rate between \$15 and \$16 per hour. Employees that do not receive tips include dishwashers making between \$9 and \$11 per hour, greeters earning \$11 per hour and cooks bringing in between \$12 and \$15 per hour. For many of Studio Diner's employees, it is their first job.

Jim is also concerned about requiring businesses to provide paid sick days. As it is, it seems to him as though most of his employees only call in sick during Chargers games, on Memorial Day weekend, July 4th, and during the Coachella music festival.



"We are already paying the highest prices ever for meat and seafood. Increasing the minimum wage is going to cause businesses to raise prices."





Harry Schwartz and his sister Pam own the Ace Hardware in Downtown San Diego. It is the only one he owns, but it is one of 17 Ace Hardware stores within the County of San Diego. They employ 16 workers and start their pay scale at one dollar per hour above minimum wage, in part to reflect a higher performance expectation than places that pay minimum wage. Of the 15 workers that are paid hourly, five earn under \$11, and their compensation accounts for 23 percent of hourly payroll. The rest of the hourly staff earn between \$11 and \$15.50 per hour.

When the minimum wage increases this July, Harry has calculated that his store will need to increase sales by 3.6 percent to cover the payroll increase. If minimum wage were to increase to \$13.09, his store would need to achieve another 14.7 percent increase in sales to cover payroll increases. Harry says that “if we can’t make it up in more sales, we’ll have to raise prices.”

To maintain a pay structure where most of the employees are earning three to five dollars per hour more than minimum wage, all of the hourly workers would see substantial wage increases. If Harry can’t afford to maintain that structure, he’s fearful the higher performance expectation he currently has may become unrealistic.

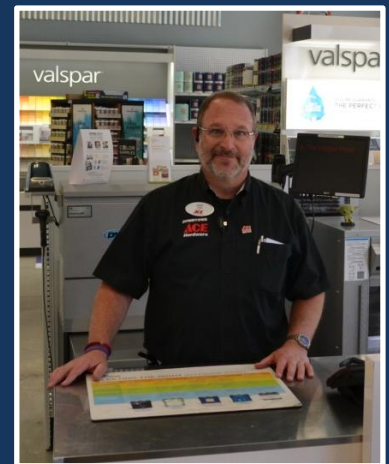
As can be expected, different stores, operating under different models will be affected differently. Harry is very aware that “Some, like Home Depot, won’t have to raise their prices as much. Maybe they only have to raise their prices 6 percent where I have to raise them 18 percent because they’re going to make it up in volume.”

Harry isn’t comforted much by the idea that low-income earners will have more money to spend at establishments like his because his customers are primarily homeowners, and low-income earners are typically renters.

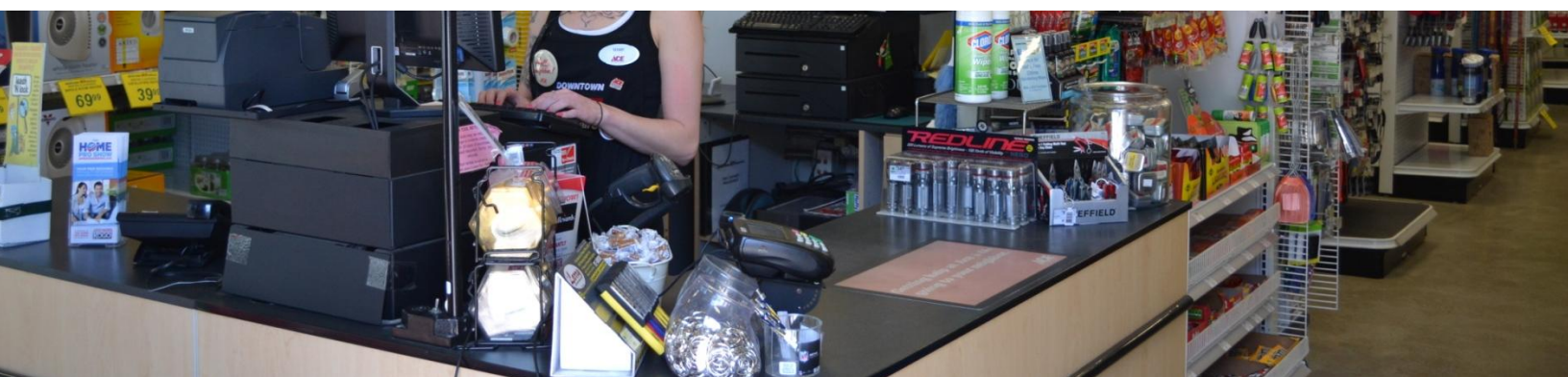
With a higher minimum wage within the City of San Diego, a concern is that customers will choose other places to buy their products. “The biggest concern right now, is I’m going to have to raise my prices to recover. The Ace Hardware in Encinitas – he’s not going to have to change his prices.” Customers that live in Chula Vista or La Mesa may choose to wait until after their drive home to go shopping if prices are cheaper there.

A similar concern is that the personal service, the benefit of getting what you want immediately and the pride customers feel when they shop at their local store will no longer be worth the increased premium over internet sales. Harry asked the rhetorical question, “How much of a spread do you get in price before customers say – “I wish I could, but I gotta buy it from Amazon?””

“If this was a statewide deal, I’d be less concerned because everybody would be facing the same issue.”



“We were looking at opening a new store either in Little Italy or San Carlos. I can’t afford to open a store... and then find out that our minimum wage is going to go up to thirteen dollars.”





Seabreeze Books and Charts is a small specialty retail shop just off of Rosecrans Street. Ann Kinner owns the shop with her business partner, but Ann is the one there to greet customers personally most days. The store is filled of marine-themed books and gifts, but also navigation equipment and a variety of maps and charts boaters might be looking for before going on a trip.

Since the recession deepened in 2008, Seabreeze Books and Charts has been waiting for business to pick back up. Their 10-year plan went “out the window.” For now, Ann is still waiting. “My business has not seen an improvement enough to feel confident about since the recession.”

Ann currently has only one employee. That employee works under half-time. Ann pays \$1 above minimum wage, in-part to acknowledge that it’s hard to find someone who can be helpful to customers looking for marine charts or other specific items and information. Ann believes she will always pay \$1 per hour more than minimum wage, but cannot afford to absorb the increased labor costs caused by an increase in minimum wage. The labor cost increases to Seabreeze Books and Charts will include expenses such as payroll tax increases and workers’ compensation increases – both of which are based on total wages.

Ann’s operations will change based on how much minimum wage increases. She has already cut inventory by one-third and she has cut her utility bill as well. If minimum wage increases to \$13.09, she expects to lay off her employee and ask her business partner’s wife to come out of retirement to help her in the store. If the increase is less, she hopes to be able to offset the increased labor expenses by cutting hours. Either way, Ann knows, “I cannot magically increase my sales.”



“My business has not seen an improvement enough to feel confident about since the recession.”



Phil's BBQ recently celebrated its 16-year anniversary. In that time, the company has grown to have three traditional locations within the County of San Diego at Santee, San Marcos, and the "flagship" location in Point Loma. This is in addition to a kiosk and permanent location in Petco Park, an operation in the San Diego International Airport, corporate offices and an events center. A popular tourist destination, approximately 20% of business at the Point Loma location is attributable to tourism.

Patti Connors is Director of Human Resources at Phil's BBQ. Patti shared information for this study about Phil's BBQ employees' wages and benefits as well as operations to help provide context to the minimum wage discussion.

Approximately 450 people are directly employed by Phil's BBQ – of which around 415 earn hourly wages as opposed to an annual salary. Airport and Petco Park employees operate their respective locations. Currently, all Phil's BBQ employees make above minimum wage.

Approximately 100 of Phil's BBQ employees work enough hours to earn healthcare coverage. The cost of that coverage is split with Phil's BBQ picking up \$218 per month, and the employee contributing \$50 per month. Employees are responsible for only a \$10 co-pay when they access services, and Patti knows they are using it.

While Phil's BBQ's clientele stretches across income levels, Patti doesn't believe an increase in minimum wage will substantially increase business for their restaurants. "We wouldn't expect to see those dollars being spent at Phil's BBQ. Although our meals are a good value, there are less expensive options." Because an increase in minimum wage will substantially increase costs, Phil's BBQ will look for ways to offset those costs.

Patti predicts that downgrading its employee benefit package will be one of many steps it is forced to take to offset increased wages. Other steps may include cutting hours, eliminating free meals for employees and hiring more experienced workers over new-hires with no prior experience.

Phil's BBQ is also exploring the possibility of trading the opportunity to tip for a mandatory service charge. Mandatory service charges are not legally tips, providing employers the discretion to distribute all or part of a service charge to its employees. This could insulate customers from price increases that may be necessary to cover the increased cost of labor.

Compensation of Hourly Employees

Responsibilities		Approximate #/% of Hourly Employees		Per Hour Compensation	
		#	%	Base Pay	With Tips
"Back-of-House"	Cleaning Dishes	30	7%	\$9 - \$10	\$9 - \$10
	Cooking & Prep.	150	36%	\$11 - \$16	\$11 - \$16
Catering		50	12%	\$10	\$20 - \$30
"Front-of-House"	Restaurant	155	37%	\$9	\$14 - \$23
	Bar	30	7%	\$9	\$25 - \$50

About 5% of hourly employees clear and wash dishes in the "back-of-house." These employees start at \$9 per hour and are typically provided \$10 per hour after six months on the job. Turnover for brand new employees is understandably fairly high – these jobs can be physically demanding – however turnover is low for employees that make it past 2 months. Patti partly attributes this to the perks provided to employees such as free employee meals and friends and family discounts.

Approximately 37% of hourly employees have cooking responsibilities. These employees earn between \$11 and \$16 per hour. California law does not allow for these or other employees that do not directly interact with customers to benefit from tips.



Section VII – Poverty Reduction Best Practices

Several steps must be taken to meaningfully reduce poverty. Best practices for fighting poverty include “Housing First” (which provides housing for the homeless), focused workforce development, and State Earned Income Tax Credits. Efforts to reduce poverty are most effective, and carry the fewest negative economic impacts, when several approaches are taken together.

For some individuals and families, poverty is the result of chronic homelessness and the inability to maintain stable employment. In the past, the provision of permanent housing to the chronically homeless was contingent upon the completion of a transitional housing program including services such as rehabilitation and counseling. However, for many chronically homeless individuals and families, this process was too lengthy, impossible to complete, or unnecessary. As a result, many organizations have turned to what is called “Housing First.” With this approach, the chronically homeless are immediately given access to permanent housing and a number of non-mandatory services at a greatly subsidized price. With permanent housing, the chronically homeless are better able to deal with their issues and find stable employment, which in turn allows them to escape poverty.

For other individuals, low skill levels and high tax rates are the primary barriers to escaping poverty. To combat this problem, private employers and public institutions have established a variety of training and education programs, allowing these workers to pull themselves up the career ladder and out of poverty.

Workers around the country also have access to federal and state Earned Income Tax Credits (EITCs), which ease tax burdens and provide more income to impoverished workers. EITCs encourage work, reduce poverty (especially for children), and avoid many of the pitfalls associated with minimum wage increases and other forms of poverty reduction.

“Housing First”

Homelessness and chronic homelessness in particular represent serious problems for efforts aiming to reduce poverty in San Diego County and the rest of the United States. “Housing First” is one of many approaches to solving homelessness taken by organizations in San Diego. While some progress has been made locally, there are clear opportunities for coordination and focused efforts for reducing homelessness and poverty in San Diego.

According to the U.S. Department of Housing and Urban Development (HUD), a chronically homeless individual is “a homeless individual with a disabling condition who has either been continuously homeless for a year or more or has had at least four episodes of homelessness in the past three years.” Homeless families in which one member meets these criteria may all be considered chronically homeless, but only if that family has children.⁸⁰

The “disabling conditions” recognized by HUD as one aspect of a chronically homeless individual include substance use disorder, major mental illness, developmental disability, post-traumatic stress disorder, cognitive impairments resulting from a brain injury, and

⁸⁰ Regional Task Force on the Homeless. “[Summary Results from the San Diego Regional 2013 Point-In-Time Count.](#)” December 26, 2013.

chronic physical illness or disability.⁸¹ Although the causes for chronic homelessness are numerous, the resulting lack of permanent housing creates an instability in which maintaining steady employment is often nearly impossible, as research conducted by the National Coalition for the Homeless confirms.⁸² This ultimately results in high levels of poverty and hunger for these affected individuals.

Traditionally, programs created to reduce homelessness have been transitional and linear in nature. With these programs, homeless individuals and families would eventually be transitioned into permanent housing, but only after living in transitional housing and completing other required services such as rehabilitation and counseling, according to Seattle's Downtown Emergency Service Center.⁸³ For many homeless individuals, this transitional housing method did eventually work, as underlying issues and addictions were dealt with, adjustments were made, and housing was eventually obtained. However, certain requirements simply could not be met by a sizeable portion of homeless participants.⁸⁴

Due to these problems, the focus for addressing chronic homelessness has shifted away from temporary and transitional housing in favor of more immediate solutions. One such permanent solution, which has already found widespread support, is the use of "Housing First" programs to provide immediate residence to the homeless. These programs provide homeless individuals with access to permanent housing and other facilities at a greatly subsidized rate (and sometimes temporarily for free). Some supportive housing programs are based upon the "Housing First" model.⁸⁵

According to Seattle's Downtown Emergency Service Center, the "Housing First" model for ending homelessness was founded on the belief that "once the chaos of homelessness is eliminated from a person's life, clinical and social stabilization occur faster and are more enduring." A 2014 Massachusetts Housing and Shelter Alliance report argued that dealing with the underlying factors that lead to homelessness in the first place is still necessary.⁸⁶ This model takes into account the fact that certain disabling conditions may prevent homeless individuals from entering "the traditional, linear service delivery system, which often entails complex clinical-based service plans, compliance-based housing placements and the acknowledgement on the part of the tenant to accept certain labels and diagnoses." Important services like rehabilitation programs and counseling are still available to "Housing First" program beneficiaries, but they are not required, and residency in permanent housing is not conditional upon their completion.

The "Housing First" model provides immediate benefits (including a permanent residence) to those individuals who might otherwise be unable to find success with a transitional housing program. This makes permanent employment both easier and quicker to obtain for these individuals and families, potentially allowing the formerly chronically homeless to escape poverty.

⁸¹ ["Homeless Emergency Assistance and Rapid Transition to Housing \(HEARTH\) Act of 2009."](#) 2009.

⁸² National Coalition for the Homeless. ["Employment and Homelessness."](#) July 2009.

⁸³ [Downtown Emergency Service Center.](#) Accessed April 2014.

⁸⁴ Ibid.

⁸⁵ Ibid.

⁸⁶ Massachusetts Housing and Shelter Alliance. ["January 2014 Home & Healthy for Good Progress Report."](#) January 2014.

Although still relatively new, this “Housing First” model has already been proven to have a significant impact on helping the homeless and reducing poverty all around the United States. A recent study conducted by The Massachusetts Housing and Shelter Alliance (MHSA) confirmed this impact and revealed just how beneficial the “Housing First” model can be for society.⁸⁷ The study compiled information from over 10,000 interviews of chronically homeless individuals and families in Massachusetts who had been or would soon be enrolled in “Housing First” programs. The study also used data provided by participating organizations to determine the costs of “Housing First” and consulted other data to estimate the public costs of chronic homelessness. Unsurprisingly, the study found that “Housing First” programs produced almost universal increases in life satisfaction, health satisfaction, and housing satisfaction.

The study also revealed an overall reduction in taxpayer spending on emergency and police services in the cities examined. Average Medicaid, shelter and incarceration costs all decreased substantially once permanent housing was introduced.⁸⁸ Before enrollment into “Housing First” programs, an average of \$33,474 per chronically homeless individual was spent on these three areas alone. Following the provision of a permanent residence, these same costs decreased to \$8,634 on average, representing a decrease in expenditures of \$24,840 per chronically homeless individual. On average, “Housing First” costs were only \$15,468 per person. For each individual housed, the direct taxpayer benefits outweighed program costs by \$9,372. Although “Housing First” programs can be expensive, the taxpayer savings they provide can immediately and substantially outweigh their costs.

Another study, conducted by the Colorado Coalition for the Homeless, produced similar results to those of the MHSA report.⁸⁹ The study sampled 19 individuals who had been given permanent housing funded through Denver Housing First Collective (DHFC). Overall, the study found that average public emergency services costs per individual decreased by 73 percent in the two years following entrance into DHFC-funded housing (when compared to the 2-years prior to entrance). This large decrease in costs can be attributed to a number of different services; during the four-year period examined in the study, total emergency room costs decreased by 34 percent, total inpatient medical costs decreased by 66 percent, total detoxification costs decreased by 84 percent, total incarceration costs decreased by 76 percent, and total emergency shelter costs decreased by 100 percent.

Based on these studies, it appears that “Housing First” initiatives can save a significant amount of taxpayer dollars by facilitating a decrease in the number of emergency and police services used by chronically homeless individuals. In permanent housing, the chronically homeless are much safer than they would be out on the streets or in shelters; as a result of this, they experience fewer accidents and major injuries which require immediate medical attention.⁹⁰ Permanent housing also gives homeless individuals access to preventative and primary health care, which decreases the likelihood of medical emergencies in the future.

⁸⁷ Massachusetts Housing and Shelter Alliance. “[January 2014 Home & Healthy for Good Progress Report](#).” January 2014.

⁸⁸ Ibid.

⁸⁹ Perlman, Jennifer; Parvensky, John. Colorado Coalition for the Homeless. “[Denver Housing First Collaborative Cost Benefit Analysis and Program Outcomes Report](#).” December 11, 2006.

⁹⁰ Massachusetts Housing and Shelter Alliance. “[January 2014 Home & Healthy for Good Progress Report](#).” January 2014.

With access to supportive services like rehabilitation, counseling and mental health care, the formerly homeless are less likely to end up using costly public systems like emergency shelters, detoxification facilities and prisons.

These kinds of taxpayer savings are also possible in San Diego, where high levels of public expenditure on emergency and police services are already a major issue.⁹¹ In 2012, the San Diego County Regional Task Force on the Homeless (RTFH) found that 50 percent of the more than 5,200 unsheltered homeless persons surveyed had used an emergency room in the past year; when this same question was asked of unsheltered homeless individuals in 2013, it was found that the percentage had actually increased to 54 percent (based on a sample of 697 surveyed adults).⁹² Although hospitals in San Diego are privately funded and operated, taxpayer money is still used towards services provided in these hospitals. Based on these facts, it is clear that San Diego's chronically homeless individuals in particular are dependent on public services.

Unsurprisingly, the taxpayer costs associated with providing these services adds up to millions of dollars per year.⁹³ A 2005 study conducted by the RTFH estimated that direct public expenditures on homelessness in San Diego County added up to more \$70 million per year.⁹⁴ With the number of homeless and the cost of providing public services both increasing since 2005, it is likely that total direct expenditures on homelessness in 2014 and the future will greatly exceed this \$70 million per year figure unless public and private funding for "Housing First" programs increase.⁹⁵

One of the organizations in San Diego that uses this "Housing First" model to combat chronic homelessness is San Diego Connections Housing (SDCH). By "Prioritizing housing and then providing wrap-around services to help people achieve long-term stability and independence," the organization has sought to save lives and decrease taxpayer spending on hospital emergency rooms, jails, and other institutional resources for the chronically homeless.⁹⁶ To accomplish this, its main housing complex provides 73 permanent housing apartments, more than 20 support services and agencies on-site and an 8,000 square foot health center. Still, despite the impact of individual organizations like SDCH, "Continued partnership and effective communication between both the private organizations and the wide variety of public agencies who engage in this issue on a multitude of levels" is necessary for getting more of San Diego's homeless off the streets and into situations where they are no longer affected by poverty.⁹⁷

Unfortunately, there is no single method that works for all homeless individuals and families. For chronically homeless individuals in particular, the taxpayer savings created by "Housing

⁹¹ San Diego County Taxpayers Association. "[Statement on Coordinated Efforts to End Homelessness in San Diego.](#)" January 2012.

⁹² San Diego County Regional Taskforce on the Homeless. "[2013 We All Count Data and Results.](#)" 2013.

⁹³ San Diego County Taxpayers Association. "[Statement on Coordinated Efforts to End Homelessness in San Diego.](#)" January 2012.

⁹⁴ Regional Task Force on the Homeless. "Distribution of Public Funds and Cash Assistance in San Diego County." August 2005

⁹⁵ San Diego County Regional Taskforce on the Homeless. "[2013 We All Count Data and Results.](#)" 2013.

⁹⁶ San Diego Connections Housing. "[Fact Sheet.](#)"

⁹⁷ San Diego County Taxpayers Association. "[Statement on Coordinated Efforts to End Homelessness in San Diego.](#)" January 2012.

First” initiatives have already proven to be substantial. For the homeless who are only temporarily without residence (perhaps due to a career transition, personal conflict or temporary financial problem), “Housing First” residences may not be necessary.⁹⁸ Although transitional housing may not work for all homeless individuals, it may be useful for those who are able and willing to complete the required process.

For some homeless individuals, support may even exist with family or friends outside of San Diego. For this reason, the Downtown San Diego Partnership (DSDP) has created the “Work Your Way Home” program.⁹⁹ This program gives homeless individuals the opportunity to work with the DSDP’s “Clean and Safe” program in exchange for travel services back home to friends and family.¹⁰⁰ Since February of 2012, the program has helped 78 individuals return to support systems all across the United States; those helped include survivors of domestic abuse, pregnant women, seniors, young adults, and individuals with physical and mental disabilities.

By giving permanent housing (through “Housing First” programs) to homeless individuals, governments and private organizations have already effectively and efficiently helped reduce poverty in San Diego County and the United States as a whole. As the previously-mentioned Massachusetts Housing and Shelter Alliance report confirms, “Improvements in quality of life and overall health outcomes indicate that Housing First is an effective intervention for chronically homeless individuals.”¹⁰¹ Permanent housing provides the homeless with important resources like shelter and safety while also granting the stability and certainty necessary to find stable employment. Stable employment in turn supplies a person with some or all of the income needed to escape poverty.

Career Ladders and Focused Workforce Development

Traditional economic development focuses on attracting, expanding, and maintaining employers in a given region. However, jobs are only effective at reducing unemployment and poverty if the region’s workforce has the skills needed to step into these jobs. One contributing factor to poverty in San Diego and the rest of the U.S. is low-skilled workers’ lack of access to the training and experience necessary to find higher-paying employment. In most industries, workers develop skills as they climb upward on a “career ladder” from entry-level positions to positions in which they utilize their learned skill-set; in doing so, they are able to provide more and more value to their employer, or another employer.

However, in some industries, workers in lower-level positions are unable to climb the career ladder (if one even exists) due to a lack of available training and education programs. Because low-skilled workers are common and can be easily replaced, they tend to receive close to minimum wage in addition to few other benefits.

⁹⁸ Downtown Emergency Service Center. [“Why Housing First?”](#) Accessed April 2014.

⁹⁹ Downtown San Diego Partnership. [“Work Your Way Home.”](#) Accessed April 2014.

¹⁰⁰ Madaffer, Robin; Michell, Kris. Downtown San Diego Partnership. [“Ending Homelessness in San Diego: Not a One-Size-Fits-All Solution.”](#) January 13, 2013.

¹⁰¹ Massachusetts Housing and Shelter Alliance. [“January 2014 Home & Healthy for Good Progress Report.”](#) January 2014.

Successful workforce development programs are generally based around the idea that workers need human capital (education, experience, training, etc.) to move up the career ladder. Moving up the career ladder in turn helps reduce poverty by giving poorer workers higher wages and more opportunities for success. However, job-training and workforce development programs are not available to all low-skilled workers. Not all private employers provide substantial training as an investment in increasing productivity.

To address this lack of private funding, federal and state governments have passed a number of laws (including the Workforce Investment Act of 1998 or WIA)¹⁰² to provide public funds for workforce development programs. In situations where no private or public funding is accessible, workers are left on their own to pay for the training and education needed to escape poverty. For too many unskilled workers, this is simply not a realistic option.

A 2010 study commissioned by the Charles Stewart Mott Foundation reveals just how impactful workforce development programs can be.¹⁰³ As part of this study, 1,285 participants were recruited and 1,014 of these participants completed follow-up reports two years later. Half of the total participants received training sponsored by one of three organizations, and the other half (the control group) were not provided with training but could seek it elsewhere. Areas of training included medicine and healthcare, basic office skills, computerized accounting, business, construction and manufacturing.

The study confirms that industry-specific training (which prepares lower-skilled workers for skilled positions and connects them with employers looking to fill such vacancies) can significantly increase the yearly income a worker can expect.¹⁰⁴ In fact, program participants who received training earned about \$4,500 (18%) more on average than the control group over the course of the study, and \$4,000 (29%) more by the second post-training year.

These training programs also provide a number of other benefits which are intended to help to ensure that a person will not be faced with poverty in the future. In addition to earning higher wages, “Participants in sector-focused training programs...were more likely to find employment, work more consistently...and work in jobs that offered benefits.”¹⁰⁵

In San Diego County, the publicly-funded San Diego Workforce Partnership (SDWP) consistently helps to provide low-skilled workers with job-training programs that are intended to “Enable eligible adults to develop the skills and knowledge needed to meet the needs of regional employers.”¹⁰⁶ Although low-skilled workers still exist in San Diego County, these programs and others like them have already had a measurable impact on San Diego’s workforce and many of its impoverished workers.

To measure this impact and the overall success of the programs it funds, the SDWP releases an annual report called the “Eligible Training Provider List Report Card.”¹⁰⁷ The 2014 report studied 2,905 San Diego County residents who either started or exited Individual Training

¹⁰² California Employment Development Department “[Workforce Investment Act](#).” Accessed May 23, 2010.

¹⁰³ Maguire, Shelia; Freely, Joshua; Clymer, Carol; Conway, Maureen; Schwartz, Deena. Public/Private Ventures. “[Job Training That Works: Findings From the Sectoral Employment Impact Study](#).” May 7, 2010.

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

¹⁰⁶ San Diego Workforce Partnership. “[What We Do](#).” Accessed May 23, 2014.

¹⁰⁷ San Diego Workforce Partnership. “[Eligible Training Provider List Report Card](#).” January 2014.

Account (ITA) funded-programs between July 1, 2012 and December 31, 2013. According to the report, of the 2,612 participants who either completed or exited a training program during this 18-month period, more than 89 percent received an employer recognized training credential, and more than 79 percent had already found some form of employment. Many of the 293 individuals who remained in training programs did so as they transitioned into job-seeking activities.

Although only slightly more than half of those employed after completion of these programs were in positions related to their training, it is difficult to argue with the overall success. As the report goes on to explain, “Training-related hiring percentages vary with time after program completion,” as some workers choose to take temporary jobs unrelated to their training until something more relevant opens up.¹⁰⁸ The fact that nearly 80 percent of program graduates found employment of some kind within a few months of program completion is encouraging, even if some initial post-program jobs were not directly related to the training.

Wage levels for program participants also help to illustrate the success of these programs. The average hourly wage of those who found employment post-training was \$18.16, which is much higher than both minimum wage and the \$11.58 target set by the Workforce Investment Board (WIB).¹⁰⁹ With sufficient hours and proper budgeting, an \$18 per hour wage would undoubtedly go a long way towards allowing formerly low-skilled workers and their families to escape poverty.

According to Christopher T. King, Director of the Ray Marshall Center for the Study of Human Resources at the University of Texas at Austin, “The weight of the evidence suggests that workforce development—broadly considered, when examined from different vantage points and perspectives and when measured appropriately—truly does work.”¹¹⁰ By providing training and experience, public- and privately-funded workforce development programs allow low-skilled workers to provide more value to their employers. In turn, this allows these same workers to climb up the “career ladder” and out of poverty.

Earned Income Tax Credit

Available at the federal level (even for citizens who do not pay federal taxes), and sometimes at the state level (for residents of 26 states, including New York, Oregon, and Illinois), the Earned Income Tax Credit (EITC) has had a significant impact on poverty rates in the United States since its introduction in 1975.¹¹¹ There is no state-level EITC in California.

The EITC is a tax credit given to impoverished individuals and families who have a “working wage” that falls below an established threshold. As the nation’s “Largest antipoverty program for working families...it increases the ability of workers in lower paying jobs to support themselves and their families by restoring needed income that would

¹⁰⁸ Ibid.

¹⁰⁹ Ibid.

¹¹⁰ King, Christopher T. The University of Texas at Austin. “[Does Workforce Development Work?](#)” January 2008.

¹¹¹ Internal Revenue Service. “[Earned Income Tax Credit Questions and Answers.](#)” Accessed May 23, 2014.

normally be lost to taxation” according to a 2006 Brookings Institution research brief.¹¹² Through this restoration of income, the EITC has been able to reduce poverty and help working-class communities.

Based on data collected during the 2010 Census, it has been estimated that the EITC alone kept more than 5.4 million Americans (including more than 3.0 million children) above the poverty line in 2010.¹¹³ These Americans would have been at or below an income level the federal government deemed insufficient for the purposes of meeting minimal requirements for food and other basic needs without the EITC.

Part of what makes the EITC so successful is the way in which it avoids the downfalls associated with other methods of poverty reduction. Unlike increases in minimum wage (which do not distinguish between impoverished workers and low-wage workers of financially-stable families), EITCs are only available to individuals and families who have an income that falls below a certain amount.¹¹⁴ As a result, the EITC is able to directly target and help those individuals and families who are working yet still living in poverty. As a result, EITCs also create more of an increase in consumer demand (through the intended redistribution of income) than an increase in minimum wage.

By substantially lowering the tax burden on impoverished families rather than placing a higher financial burden on a subset of employers, EITCs avoid many of the problems associated with minimum wage increases, including market distortions and inflationary pressures.

EITCs are also directed primarily at families (with dependent children) in a way that other poverty reduction measures like minimum wage are not. This is part of what makes the EITC so effective in combating child poverty. In 2011, over half of the individuals moved above the poverty threshold by the EITC and another similar credits were children.¹¹⁵ In addition, the 2006 Brookings Institution research brief found that “the EITC lifts more children out of poverty than any other social program or category of programs. Without it, the poverty rate among children would be 25 percent higher.”¹¹⁶

¹¹² Holt, Steve. The Brookings Institution. “[The Earned Income Tax Credit at Age 30: What We Know.](#)” February 2006.

¹¹³ Greenstein, Robert. Center on Budget and Policy Priorities. “[Government Programs Kept Millions Out of Poverty in 2010.](#)” 13 September 2011.

¹¹⁴ Internal Revenue Service. <http://www.irs.gov/Individuals/EITC,-Earned-Income-Tax-Credit,-Questions-and-Answers>

¹¹⁵ Hungerford, Thomas L.; Thiess, Rebecca. Economic Policy Institute. “[The Earned Income Tax Credit and the Child Tax Credit: History, Purposes, Goals, and Effectiveness.](#)” September 25, 2013.

¹¹⁶ Holt, Steve. The Brookings Institution. “[The Earned Income Tax Credit at Age 30: What We Know.](#)” February 2006.

Similar to increases in minimum wage, EITCs promote workforce participation. As research conducted by the Economic Policy Institute indicates, EITCs have a positive effect on labor supply by increasing and further incentivizing labor force participation.¹¹⁷ This is because when it comes to EITCs, the federal government and participating states limit “Assistance, in the form of offsetting taxes and a wage supplement, to adults who find jobs and leave the welfare rolls but continue to be poor or to have modest incomes.” Due to this restriction, people who are able to work but choose not to will *not* be eligible for EITCs, no matter how poor they are.

Although EITCs already provide an almost unrivaled level of poverty reduction for America’s poorest workers, their impact could potentially be even greater. Many states (including California) do not have state-level EITCs, which means workers in these states only have access to the federal EITC and thus receive a smaller amount of EITCs than comparable workers in other states. Research conducted by the Center on Budget and Policy Priorities estimates that for the 2015 fiscal year, more than 7.2 million Californians will be eligible for the federal EITC, but the federal EITC alone may not be enough to keep these people above the poverty line.¹¹⁸ According to this same research, if California matches five percent of the total federal credit owed to each eligible worker in California, it would be providing more than \$345 million to the state’s poorest workers and their families. While this is a large sum of money for a state to dedicate, very few (if any) other forms of poverty reduction are as effective at both combating poverty and promoting work.

¹¹⁷ Greenstein, Robert; Shapiro, Isaac. Center on Budget and Policy Priorities. [“New Research Findings on the Effects of the Earned Income Tax Credit.”](#) March 11, 1998.

¹¹⁸ Williams, Erica; Leachman, Michael. Center on Budget and Policy Priorities. [“How Much Would a State Earned Income Tax Credit Cost in Fiscal Year 2015?”](#) December 19, 2013.



EXTREME WAGE INITIATIVES & THE HOTEL INDUSTRY:

IMPACT ON LOCAL COMMUNITIES AND THE NATION

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Key Conclusions

Extreme minimum wage rates would not only decrease employment, but also decrease opportunities for upward mobility in the hospitality industry. Entry-level, hourly roles are traditional “routes to the top” in the hotel industry where there are numerous egalitarian stories of people starting in hourly positions and rising to high level, executive leadership positions (Cleveland, O’Neill, Himelright, Harrison, Crouter & Drago, 2007).

The effects of extreme minimum wage increases would have different results in different cities. To provide a demonstration, two relatively generalizable metropolitan areas of different sizes and located in different regions of the U.S. are evaluated as explanatory cases in this report.

- With the minimum wage rate of \$10.10 per hour proposed in the U.S., hotels in Biloxi, for example, would be affected to a far greater degree than hotels in nearby New Orleans because Biloxi would lose its competitive advantage of relatively low prices as hotel managers in Biloxi probably would raise their room rates making the destination significantly more expensive. The increase in the minimum wage would narrow the gap between what hotels in New Orleans and Biloxi charge, potentially driving more business to New Orleans, further reducing employment in Biloxi. Biloxi hotel managers would be forced to lay off employees to maintain their profit margins.
- With the higher minimum wage proposed strictly for hotel workers of \$15.37 per hour in Los Angeles (Rainey, 2014a), other destinations in California would not be required to comply with the new wage rate. Hotels in Anaheim, for example, would be able to maintain their profit margins and rates, while hotel managers in Los Angeles probably would be forced to increase prices, and travel demand most likely would weaken as transient and group travelers would seek better deals elsewhere. Further, job losses could increase in this city which already has an unemployment rate over ten percent. Likewise, other enterprises that receive business from tourists would be negatively affected, other tax revenues would be reduced and improvements to urban infrastructure relying on tax revenues could be compromised.

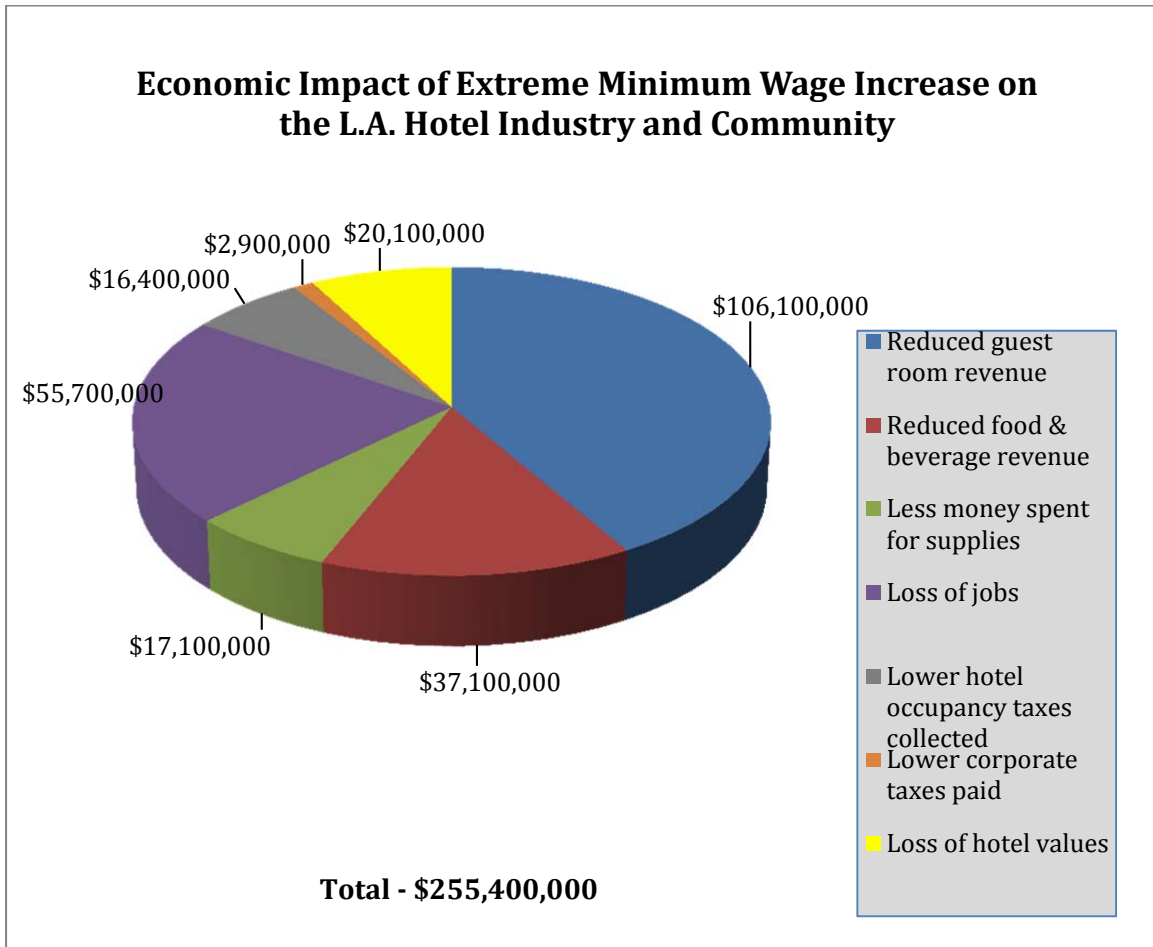
The following table outlines the total estimated economic impact to the L.A. hotel industry as a result of an extreme minimum wage increase to \$15.37 per hour.

Economic Impact of Extreme Minimum Wage Increase on the L.A. Hotel Industry and Community

Affecting Factor	Impact	Result in Dollars
Lower Demand	Reduced annual guest room revenue	\$106.1 million
Lower Demand	Reduced annual food & beverage revenue	\$37.1 million
Lower Demand	Fewer guest rooms occupied resulting in less money spent for supplies	\$17.1 million
Lower Demand	Loss of housekeeping and F&B jobs	\$55.7 million ¹
Lower Demand	Loss of hotel values	\$20.1 million
Lower Demand	Lower hotel occupancy taxes collected	\$16.4 million
Lower Profitability	Lower corporate taxes paid	\$2.9 million
Total		\$255.4 million

¹ Note that this estimate is a conservative one assuming the only jobs lost are in the housekeeping and F&B departments, not other departments.

The following chart displays the types and quantities of negative economic impact anticipated in L.A. from a minimum wage increase to \$15.37 per hour.



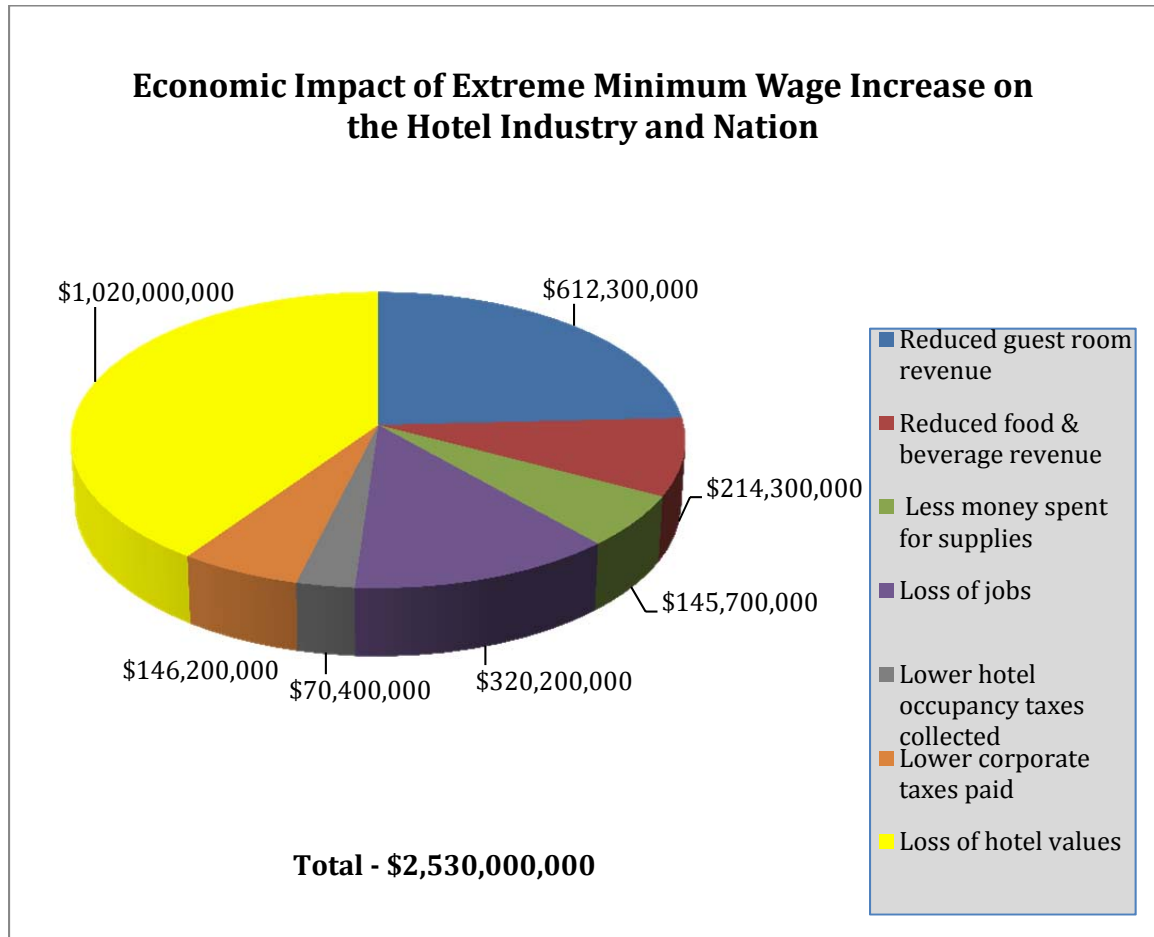
Nationwide, the total negative economic impact of a minimum wage increase to \$10.10 per hour is estimated to be \$2.53 billion and would be a significant strain on the U.S. economy, resulting in sluggish hotel industry performance. The following table outlines the total estimated economic impact to the U.S. hotel industry as a result of the proposed minimum wage increase.

Economic Impact of Extreme Minimum Wage Increase on the Hotel Industry and Nation

Affecting Factor	Impact	Result in Dollars
Lower Demand	Reduced annual guest room revenue	\$612.3 million
Lower Demand	Reduced annual food & beverage revenue	\$214.3 million
Lower Demand	Fewer guest rooms occupied resulting in less money spent for supplies	\$145.7 million
Lower Demand	Loss of housekeeping and F&B jobs	\$320.2 million ²
Lower Demand	Loss of hotel values	\$1.02 billion
Lower Demand	Lower hotel occupancy taxes collected	\$70.4 million
Lower Profitability	Lower corporate taxes paid	\$146.2 million
Total		\$2.53 billion

² Note that this estimate is a conservative one assuming the only jobs lost are in the housekeeping and F&B departments, not other departments.

The following chart displays the types and quantities of negative economic impact anticipated in the U.S. from a minimum wage increase to \$10.10 per hour.



National effects of extreme minimum wage increases may include a decrease in hotel property values and a slowing of hotel construction in local areas. Profitability has been linked to the market value of hotels (O’Neill, 2004), and therefore, with relatively low profit margins, newly constructed hotels would have decreased market values and could be sold at lower prices, further stunting local economies. If the industry’s business model produces lower returns, business for hotel brokers, construction workers, hotel workers, food suppliers, guest room amenity suppliers, laundry companies, etc., would be hurt as a trickle-down effect.

Research on the hotel industry suggests extreme minimum wage increases could contribute to a vicious cycle of high wages leading to high turnover, high stress and high health care costs. Turnover would be compounded because such wage increases would hasten the elimination of restaurants and room service in hotels and corresponding job losses because many hotel owners would not continue such operations at a loss.

In summary, the total initial estimated economic impact to the hotel industry as a result of the proposed extreme minimum wage increase, considering reduced revenue, loss of jobs,

loss of money going back into the economy, i.e., “trickle-down effect,” loss in property value, and the reduction in payment of taxes would equate to roughly \$2.53 billion in the U.S.³ It is important to note that those in the hotel industry who would be most negatively affected by extreme minimum wage increases would be small business entrepreneurs who only own one or two hotels as their primary source of income.

³ Note that this estimate is a conservative one assuming the national \$10.10 minimum wage increase is passed, and no higher local minimum wage legislation goes into effect. Also, other local taxes were not considered in the national number; therefore, the total economic impact is likely greater than \$2.53 billion.

Introduction

Employment and careers compose a key function in modern society and communities, and they significantly benefit the people who have them. According to a report from the Robert Wood Johnson Foundation (2013), employment has been linked to relatively healthier lives, healthier home environments, safer neighborhoods, better nutrition, higher quality childcare, and more educational opportunities. Conversely, unemployment and underemployment (inconsistent or unstable work) lead to negative outcomes such as increases in blood pressure, unhealthy coping behaviors, and increased depression (Robert Wood Johnson Foundation, 2013). Additionally, laid-off Americans are 83 percent more likely than their fully employed counterparts to develop stress-related health conditions (Robert Wood Johnson Foundation, 2013).

Employment also leads to positive psychological benefits. Graetz (1993) found that those who were employed reported a 23 percent lower level of psychological distress than those who were unemployed. Reemployment may reverse the negative psychological effects caused by unemployment, including reducing depression (Kessler, Turner, & House, 1988). A recent report, commissioned by the National Institutes of Health, suggested that gaining employment and consequently getting off of welfare programs, reduced mothers' drinking problems and rates of depression (Zabkiewicz & Schmidt, 2009). Damaske (2011) suggested that employment has positive familial outcomes beyond income, such as strengthening familial bonds and creating a sense of contribution to the family by each worker.

While employment plays a role in a community's psychological and physical health, it also influences the economic vitality of a community. Wages significantly affect how people are able to gain employment and can influence job losses.

The federal proposal to increase the minimum wage by 39 percent from the current level of \$7.25 to \$10.10 per hour (U.S. CBO, 2014) represents a significant change. A report by the U.S. Congressional Budget Office (2014) of the U.S. Congress, estimated the current administration's proposed extreme minimum wage increase to \$10.10 per hour would increase levels of unemployment and negatively affect the nation's budget deficits. This report discusses the potential benefits and pitfalls of increasing the minimum wage, and presents economic impact analyses for the U.S.

overall, and for the city of Los Angeles with a focus on the L.A. proposal for an extreme increase to \$15.37 per hour.

Background

Evidence of both positive and negative effects of raising minimum wages has been reported both within and outside the United States. This literature review focuses on the American perspective regarding the economic impacts that could result from significant increases in minimum wages, i.e., extreme minimum wage increases. This perspective focuses on effects specific to the hotel industry, an industry that in some geographic areas has been singled out for local minimum wage increases (Rainey, 2014a). An executive summary of this literature review is included in the appendix to this report.

Benefits of a Minimum Wage Increase

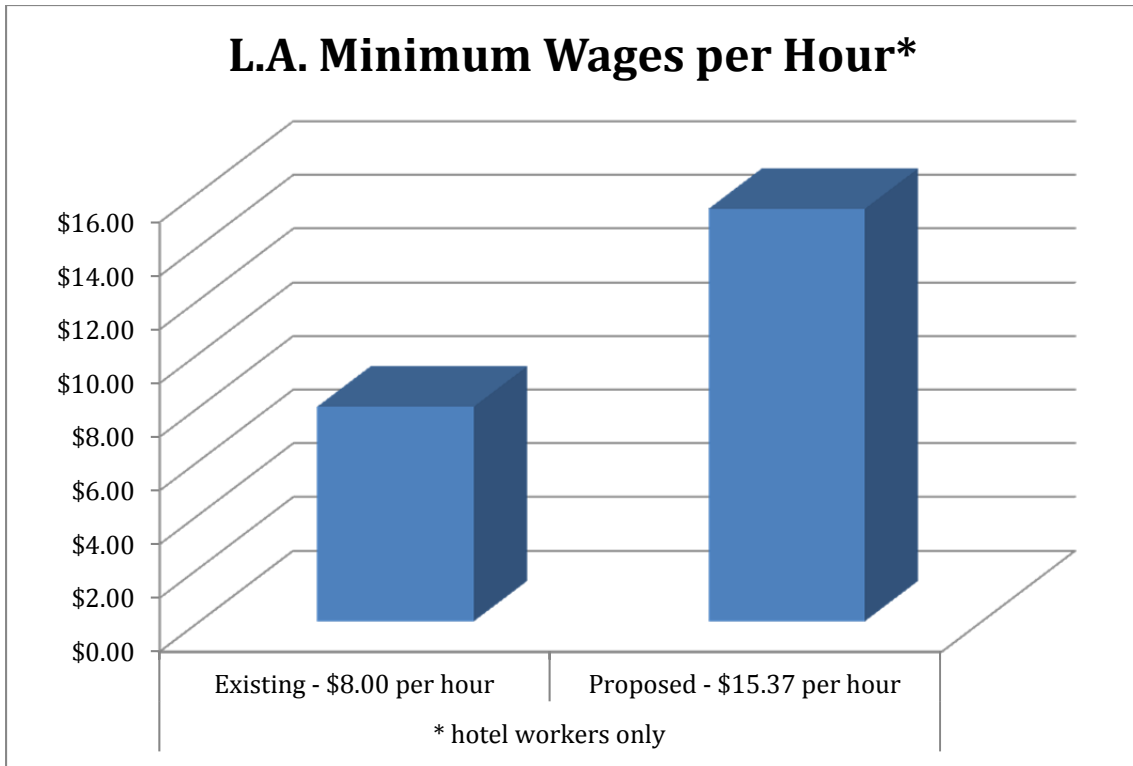
Raising the minimum wage has recently been heralded as a way to aid labor markets and the overall economy in the U.S. Claims in the popular press have been made that raising the minimum wage will reduce poverty (Konczal, 2014), increase employment (Berman, 2013), and provide relief for workers earning a low wage (Rainey, 2014b). Claims of benefits of an extremely high increase in the minimum wage are reported to be grounded in empirical data.

One reported benefit of a higher minimum wage is positive effects on employment conditions. It has been demonstrated that a rise in the minimum wage may increase the ratio of permanent to temporary workers in organizations as they convert more workers to full-time status (Dolado, Kramarz, Machin, Manning, Margolis, Teulings, & Keen, 1996). Dolado et al (1996) posit the reason for this conversion is an attempt by employers to increase the output of each person on the payroll when wages are relatively high. Unlike temporary workers, permanent workers have a significant cost of severance, which tends to lead to relatively higher employment levels in slumping organizations. Dolado et al (1996), however, are silent as to the effect regarding those who are not converted from part-time to full-time status within an organization; it is

possible that those who do not get converted to full-time employment lose employment altogether.

Brenner (2005) echoes the positive employment benefit of relatively high minimum wages by suggesting that in conditions of relatively high minimum wages, firms may be more likely to employ relatively fewer part time employees and engage more full-time workers. Reducing part-time employment for the sake of full-time employment may be beneficial; however, it could lead to detrimental outcomes for certain members of communities. Many women after child rearing are either forced or choose to “pull back” from the workforce by taking on part-time employment (Damaske, 2011). Additionally, 78 percent of young adults with autism who were able to graduate from high school, were only able to find part-time employment (Taylor & Seltzer, 2011). If an increase in the minimum wage converts part-time employment opportunities to full-time opportunities, communities may suffer as mothers, autistic individuals, and others who seek part-time work may find it more difficult to secure suitable employment.

Currently, what is being proposed in some municipalities such as Los Angeles, and was enacted on January 1, 2014, at SeaTac (Seattle airport area), is an extreme increase in minimum wage levels to approximately \$15 per hour. The city of Seattle is now considering a minimum wage of \$15.00 per hour (Wilson, 2013). Washington State’s minimum wage is currently over \$9.00 per hour, and is the highest in the country. If the latest Seattle proposal is passed, the minimum wage would increase by 61 percent. In Los Angeles, the proposed increase in the minimum wage would apply to workers employed at hotels of 100 rooms or more, and would increase the minimum wage rate from the state minimum of \$8.00 to \$15.37 per hour, for a 92 percent increase (Rainey, 2014a) as shown in the following graph.



Also, the San Diego city council proposal to increase the minimum wage to \$13.09 per hour would result in a 64 percent increase (Horn, 2014), and the proposal being considered by the Providence, RI, city council to increase the minimum wage to \$15.00 per hour for hotel workers would result in an 88 percent increase (Fredericks, 2014).

Another reported benefit of an extreme increase in the minimum wage is the increased earnings, and in turn, spending power of those who are employed at the higher wage rate. In a study at the San Francisco airport (where a 22 percent increase in the minimum wage took place in 2000) conducted after the substantial minimum wage increase, workers were reported to have had lower levels of absenteeism and turnover, and higher levels of morale and productivity (Reich, Hall & Jacobs, 2005). A reduction of turnover and absenteeism is a logical outcome, in this instance, as the workers could easily see that similar employment anywhere else in the city would result in an earnings reduction. However, an extreme increase in the minimum wage may not have the same effect at the state or national level.

It has been reported that a proposed 39 percent increase in the federal minimum wage from \$7.25 to \$10.10 per hour would raise an estimated 900,000 people out of poverty (U.S. CBO, 2014), and an increase (similar to that of the San Francisco airport workers) of 24 percent to \$9.00 per hour, would raise an estimated 300,000 people out of poverty (U.S. CBO, 2014). Being able to legislate a reduction in poverty levels is tempting, but the same report indicates that doing so would reduce overall employment, suggesting an extreme rise in the minimum wage may merely cycle different people in and out of poverty. Economists have observed this issue for decades. As Stigler (1946, p. 363) stated, “The connection between hourly wages and the standard of living of the family is thus remote and fuzzy. Unless the minimum wage varies with the amount of employment, number of earners, non-wage income, family size, and many other factors, it will be an inept device for combatting poverty even for those who succeed in retaining employment. And if the minimum wages varies with all these factors, it will be an insane device.”

It has been suggested that improved earnings of workers would contribute in a small way to reducing federal budget deficits in the short term by decreasing the number of people eligible for federal assistance programs (U.S. CBO, 2014). The caveat to this short-term reduction of the federal budget deficit is that in the long term, the deficit is expected to increase if those who lose their jobs are unable to secure new employment in the labor market with the higher minimum wage (U.S. CBO, 2014).

Drawbacks of a Minimum Wage Increase

While some benefits of an extremely high minimum wage have been posited, significant drawbacks have also been reported. One such drawback is increased prices to consumers. In two studies regarding the restaurant industry, minimum wage increases resulted in increased prices for consumers (Aaronson, 2001; Aaronson, French & MacDonald, 2008). Aaronson et al (2008) concluded that every one percentage point increase in the lowest wage results in a .07 percent increase in prices. For businesses with a relatively higher proportion of employees earning the minimum wage, such as fast food, the estimated price increase is 1.6 percent for every 10.0 percent increase in the

minimum wage. Aaronson (2001) suggested that in markets where prevailing low-skill wages far exceed minimum wages, minimum wage increases have limited effects on market wages and costs; however, where the opposite is true, the effect is significant.

In a study of the San Francisco airport area, additional costs were passed on as a result of a minimum wage hike. The companies who serviced the airport charged higher fees to the airlines flying into and out of San Francisco at the rate of an additional \$1.42 per arriving passenger (Reich, Hall & Jacobs, 2005). In a study of firms in Boston after the city passed a minimum wage increase that applied only to firms with a large portion of revenues from city contracts, prices did not increase, but rather profitability declined (Brenner, 2005). It appears that the affected firms in Boston may not have had the ability to increase prices due to the nature of their business contracts with the city. In conclusion, there appears to be a consistent relationship between an increase in the wage floor and an increase in prices to consumers. Even nominal increases to the minimum wage are expected to flow through either to consumers or the profit margins of companies.

In the current debate regarding minimum wage increases, governmental entities are proposing what could be classified as an extreme minimum wage increase. Increases being proposed in Seattle would increase the minimum wage by 61 percent (Wilson, 2013), in Los Angeles by 92 percent (Rainey, 2014b), in San Diego by 64 percent (Horn, 2014), in Providence by 88 percent (Fredericks, 2014), and nationally by 39 percent (U.S. CBO, 2014). The stark increase may have unique outcomes in the national and local economies, especially as it pertains to employment levels.

The typical effect of a relatively high minimum wage is an adverse impact on employment. Economists have long understood the link between high minimum wage increases and increases in unemployment. Stigler (1946) suggested that the link was present because the cost of labor increases, which in turn decreases the amount that is produced by an individual per dollar in wages. An established minimum wage above the wage equilibrium level has been shown to lead to a fall in employment in the U.S. (Brown, Gilroy and Kohn 1982; Card, Katz, and Drueger, 1993). Stewart (2004) showed

a link that for all workers (men and women, youth and adult), an increase in the minimum wage reduced employment, and did so even for those who were earning greater than a ten percent premium over the minimum wage prior to the increase. Evidence from Russia (a nation experiencing rapid increases in minimum wages) shows that every 1.0 percent increase in the Kaitz ratio⁴ leads to a 0.047 percent increase in unemployment (Muravyev & Oshchepkov, 2013). Russia experienced increases of the Kaitz ratio of approximately 100 percent in one year due to increases in the minimum wage, resulting in an overall 4.7 percent increase in unemployment (Muravyev & Oshchepkov, 2013).

An increase in the U.S. minimum wage to \$10.10 per hour would change the American Kaitz ratio from .35 to .49,⁵ or a 40 percent increase. If the minimum wage were increased to \$10.10 per hour, an estimated 500,000 people would lose their jobs, and if the minimum wage increased to \$9.00 per hour, an estimated 100,000 people would lose their jobs (U.S. CBO, 2014). An historical example of how the minimum wage can adversely affect employment can be found in the Americas when Puerto Rico increased its minimum wage to be consistent with the mainland U.S. In the late 1970s and early 1980s, the extreme minimum wage increase significantly increased unemployment, particularly in low wage sectors of the Puerto Rican labor market (Castillo-Freeman & Freeman, 1992). Migration from Puerto Rico to the mainland U.S. increased during this time from the unemployed population after the minimum wage hike, particularly among relatively uneducated and low-skilled migrants (Castillo-Freeman & Freeman, 1992).

Muravyev and Oshchepkov (2013) found that when unemployment occurs due to increases in the minimum wage, people take on more informal, i.e., “under-the-table” work, where they do not pay taxes or receive legal protections, and typically earn below the minimum wage. Informal work increased in Russia when minimum wages increased (Muravyev and Oshchepkov, 2013). Increasing informal work may lead to immeasurable outcomes, such as a lack of access to affordable health care. After the Supreme Court of

⁴ The Kaitz ratio is the ratio of the minimum wage to the average wage.

⁵ The Kaitz ratio was calculated using the average wage in the United States based on the Social Security Administration’s estimation.

the U.S. upheld the individual mandate of the Affordable Care Act requiring all citizens to have health insurance (Sacks, 2012), those who have gained informal work will have to pay out of pocket to become compliant. Additionally, engaging in informal work will put people at risk by not having access to workers compensation claims, unemployment benefits, and they may not be able to cite their experience on their resumes when searching for better jobs.

Wage growth actually slowed in the United Kingdom during periods following minimum wage increases (Stewart, 2004). When the federal minimum wage increased in the U.S. in 1991, the restaurant industry in Texas experienced a narrowing of the wage dispersion (Katz & Krueger, 1992). This narrowing occurred largely because those workers who were earning the lowest wages received a raise, but managers were reluctant to significantly increase the wages of the highest paid workers resulting in relatively more low-wage workers. Wage growth is only one part of remuneration that could decrease as a result of an extreme minimum wage increase.

Along with wages, hotel employers often offer benefits such as health insurance, paid time off, job training, free meals, free parking and retirement plans. However, low-wage workers are less likely to have access to most types of employment benefits than high-wage workers as outlined in Table 1. As a result, the previously discussed creation of relatively more low-wage workers in the U.S. hotel industry as a result of wage rate increases could mean that relatively more hotel workers would be vulnerable to the effects of benefit decreases.

Table 1 - Employment Benefits Access by Wage Group

Benefit	Low-Wage Workers	Mid-Wage Workers	High-Wage Workers
Health coverage for an individual	42%	87%	94%
Health coverage for individuals and families	34%	78%	87%
Paid time off for illness	39%	74%	90%
Paid vacation	51%	89%	88%
Paid holidays	46%	86%	89%
Defined benefit pension	16%	39%	48%
Retirement plan with employer contributions	32%	72%	87%
Job training or education	45%	64%	81%

Adapted from: Families and Work Institute, 2006

In countries such as the United Kingdom and Japan, where the government regulates benefits like vacation days, paid time off for illness, and health insurance, employers have limited discretion regarding how benefits are provided, and there is no relationship between minimum wage and benefit changes (Kanki, 2013). Similarly, in France where the government regulates such benefits, the minimum wage is increased and decreased in conjunction with these “social security” benefits (Kanki, 2013). The U.S., however, does not have laws regarding most benefits and employment, with the major exception being the recent Affordable Care Act which was upheld by the Supreme Court of the U.S. (Sacks, 2012). It is conceivable given the flexibility that American employers have in paying benefits, (that employers in the United Kingdom, France, and Japan do not), that with large increases in minimum wages, benefits will be reduced. Evidence from Chile suggests that as minimum wages increased, the matching individual contributions from employers to deferred benefits like unemployment insurance for workers declined (Ferrada, 2010). As in the U.S., employers in Chile have flexibility regarding employment benefits. Considering the evidence from Chile and the freedom U.S. employers have to offer benefits, it is quite possible that workers in the U.S. would

experience a reduction in the total benefits to which they have access as a result of an extreme increase in the minimum wage. Early evidence from SeaTac suggests that benefit reductions may have already occurred in that area as a result of the January 1, 2014, extreme minimum wage increase (Ng, 2014).

The Hotel Industry

Increasing the minimum wage would create conditions where hotels would operate under a higher cost structure. Unfortunately, even to the extent some costs could be passed along to guests in the form of higher room rates, hotel operators would be likely to experience decreased profitability. O'Neill and Mattila (2007) found that hotels with relatively higher room rates are no more profitable than hotels with lower room rates. Competent hotel managers are always trying to maximize their room rates (Noone, Kimes, Mattila & Wirtz, 2009). Under conditions where management is already maximizing rates, they may not be able to increase rates to make up for increased labor costs resulting from an extreme minimum wage increase. If a hotel operation were to reduce employment levels to control costs, or to keep staffing levels in line with a decrease in business levels, the outcome may backfire, further hurting profitability. Employees in the hotel industry sometimes work long hours and report high levels of stress, so reducing staff levels could contribute to work overloads, and in turn, drive turnover (O'Neill & Davis, 2011). Furthermore, if staffing levels are reduced, employee stress levels in hotels could increase as a result of longer and more unpredictable hours (Cleveland, O'Neill, Himelright, Harrison, Crouter & Drago, 2007), contributing to a vicious cycle of high wages leading to high turnover, high stress and high health care costs. Turnover has been estimated to reduce profitability in hotels by an average of \$7,500 per hotel property for every 1.0 percent increase in turnover (Simons & Hinkin, 2001).

Such reductions in profitability may not seem to be a significant impact to large companies like Hilton Worldwide or Marriott International. However, according to STR (formerly Smith Travel Research, 2013), as of year-end 2012, Hilton Worldwide franchised 3,102 hotels while directly managing only 272 hotels, and Marriott franchised 2,404 hotels while only directly managing 697 hotels. This model of franchising their

properties has evolved as the primary method of operation of American hotel companies, and most hotel companies franchise at an even higher rate than Hilton and Marriott (STR, 2013). Out of these two companies, a total of 5,506 hotels were owned and managed by entities other than the parent companies. The owners may be large real estate companies, but more likely would be small business entrepreneurs who only own one or two hotels as their primary source of income. If turnover were to increase by a modest amount of five percent, a single hotel owner would see a reduction of \$37,500 in profitability.

The effects of extreme minimum wage increases may be particularly acute in certain less profitable sectors of the hotel industry. For example, hotels owners with food and beverage operations may simply close their restaurants rather than attempt to operate them in a highly unprofitable fashion. Such operations are labor intensive, so closing them could result in very high levels of unemployment.

Room service departments are becoming less profitable in today's market (Brancatelli, 2013). Given a reduction in overall demand, entire room service departments may be cut to reduce costs, as has already occurred at the Hilton New York in response to high wage rates, and is being considered by a number of other U.S. hotel operators with food and beverage services (Brancatelli, 2013). Hotel restaurants account for a significant portion of revenue (35 percent on average) for full-service hotels (Schmidgall, 2006); however, they are often underperforming and are at risk of being eliminated from hotels in instances of rising costs (Canina & Carvell, 2005) such as wage rates. Hotel room departments typically operate at an average departmental profit margin of 74 percent, whereas food and beverage departments' profit margin is typically 32 percent, and much of that profit is in the more lucrative catering and events business, rather than in restaurant operations.

Once non-departmental overhead expenses are considered, such as utility costs, marketing expenditures, maintenance expenses, and other administrative costs, typical hotel food & beverage operations barely break even. Schmidgall (2006) found that hotel restaurants are highly labor intensive. Therefore, a large increase in the minimum wage would be a particularly negative event, and it is plausible that an extreme increase in the minimum wage would hasten the elimination of restaurants and room service in hotels

and corresponding job losses because many hotel owners would not continue such operations at a loss.

Los Angeles and Biloxi

The effects of extreme minimum wage increases would have different results in different cities. To provide a demonstration, two relatively generalizable metropolitan areas of different sizes and located in different regions of the U.S. are evaluated as explanatory cases in this paper. Namely, in Biloxi, MS, and Los Angeles, CA, the effects of extreme minimum wage increases would be deleterious to the health of the hotel industry in both municipalities, but for different reasons.

Biloxi employment has not fully recovered from the most recent economic recession or from the two Gulf tragedies of Hurricane Katrina and the Deep Water Horizon oil spill. Biloxi's unemployment rate was at 8.2 percent in 2013, up from 5.2 percent in 2004, the year before Hurricane Katrina (U.S. BLS, 2014a). Los Angeles' employment levels have been deeply affected by the most recent recession. The unemployment level in Los Angeles was 4.8 and 5.6 percent in 2006 and 2007, respectively, however, it increased to 10.7 percent in 2013 (U.S. BLS, 2014a). Both Biloxi and Los Angeles had unemployment levels higher than the national average in 2013, which was 6.7 percent (U.S. BLS, 2014a). In fact, as of December 2013, Los Angeles had the 305th lowest level of employment and Biloxi had the 248th lowest level of employment of any metropolitan area in the U.S. (U.S. BLS, 2014b). Each of these two labor markets would be a prime candidate for employment market improvements.

Both cities also have strong hotel markets, with Biloxi being a Gulf coast resort destination, and Los Angeles being the country's second largest city, and a hub of commerce and culture. The examples of Biloxi and Los Angeles highlight how other areas of the nation may be adversely affected by extreme minimum wage increases, as well.

In Biloxi, the minimum wage would increase due the raising of the federal minimum wage. This 39 percent increase in the minimum wage would result in higher hotel prices for this Gulf coast resort destination. Biloxi has a low wage model in the hotel industry compared to the nearby alternative of New Orleans. Table 2 compares the

differences in median wages for hotel employees between the two cities, national median wages, and percentage change in the wage that would be required based on a proposed increase in the minimum wage to \$10.10 per hour.

Table 2 - Median Wage Differences between Biloxi, MS and New Orleans, LA

Position	Biloxi	Percent Change to \$10.10	New Orleans	Percent Change to \$10.10	National	Percent Change to \$10.10
Hotel Front Desk	\$9.60	5.2 %	\$11.13	N/A	\$10.56	N/A
Bellhops	\$8.52	18.5%	\$9.17	10.1%	\$9.64	4.8%
Housekeeping	\$9.44	7.0%	\$9.72	3.9%	\$10.49	N/A
Concierge	\$8.60	17.4%	\$9.63	4.9%	\$13.10	N/A

Source: U.S. BLS, 2014b

With an increase in the minimum wage to \$10.10 per hour, hotels in Biloxi, would be affected to a far greater degree than hotels in New Orleans and would be affected more than average hotels nationally. Hotel managers in Biloxi would most likely raise their room rates making the destination significantly more expensive. The increase in the minimum wage would narrow the gap between what hotels in New Orleans and Biloxi charge, potentially driving more business to New Orleans, further reducing employment in Biloxi. If hotels in Biloxi were unable to raise their rates, they would be forced to lay off employees to maintain their profit margins. In either scenario, the city of Biloxi would not only lose out on hotel business and earned income tax of the workers who would lose their jobs, but the city would also lose out on occupancy tax from overnight hotel guests, and sales taxes from whatever those guests purchased while in town. The national minimum wage in the case of Biloxi would be detrimental, as Dolando et al (1996, p. 329) state, “a single national minimum wage is then an extremely blunt policy instrument, being set too low in some markets (employment could be raised by having a higher minimum) and too high in other markets (employment is reduced).”

The city of Los Angeles is proposing a new, higher minimum wage strictly for

hotel workers of \$15.37 per hour (Rainey, 2014a). The increase for the city of Los Angeles would apply only locally, so other destinations in California would not be required to comply with the new wage rate. Hotels in Anaheim, for example, would be able to maintain their profit margins and rates, while hotels in Los Angeles would be forced to either accept lower profit margins, charge higher rates, or both. If a result of the proposed wage increase in Los Angeles were to be an increase in prices at hotels, travel demand most likely would weaken as transient and group travelers would seek better deals elsewhere.

If the proposals for increases in the minimum wages for both Los Angeles and the U.S. are passed, the wages in Los Angeles would rise much higher than elsewhere in the country. Table 3 outlines how much wages would increase in hotels in Los Angeles and Anaheim based on the new minimum wage structures.

Table 3 - Median Wage Differences between Los Angeles and Anaheim

Position	Los Angeles	Percent Change to \$15.37	Anaheim	Percent Change to \$10.10
Hotel Front Desk	\$10.95	40.4 %	\$11.26	N/A
Bellhops	\$9.59	54.5%	\$9.63	4.8%
Housekeeping	\$10.23	50.2%	\$14.26	N/A
Concierge	\$14.22	8.1%	\$9.98	1.2%

Source: U.S. BLS, 2014b

The increase in the cost structure would impact Los Angeles in a much more notable way than other cities in southern California. The hotels in the city of Anaheim would see a negligible increase in labor costs, while hotels in the city of Los Angeles would experience increases of over 50 percent in some departments as noted in Table 2. Given such increases in the wages for Los Angeles hotels, hotel prices would be likely to increase, and group and transient business would be likely to go to other markets. The city of Los Angeles currently has unemployment levels greater than 10 percent (U.S.

BLS, 2014a), and could ill afford to put more of its population out of work. The city of Anaheim, however, may experience a windfall in occupancy, tax dollars, and employment due to higher demand in their local hotels. Other enterprises that receive business from tourists in L.A. would be negatively affected, other tax revenues would be reduced and improvements to urban infrastructure relying on tax revenues could be compromised.

Summary Regarding Extreme Wage Rate Increases

Legislation which proposes extreme minimum wage increases would have detrimental effects on the hotel industry, and as the examples of Biloxi and Los Angeles show, these effects would not be uniform. Hotel prices would increase while profitability would decrease as a result of national or local extreme minimum wage laws. Additionally, due to lower profitability, the industry would be forced into layoffs, and/or to maintain profitability, hotel guests would experience higher prices. Even if higher prices were to be charged, the potential exists for hotels to lose guests to competitors as is likely in such cities as Biloxi and Los Angeles. Even more detrimental to the hotel industry would be if rates are increased, and as a result, trips are canceled altogether. If there are fewer travelers, all markets and hotels would lose out on revenues, hamstringing the industry across the nation.

If hotel managers in such cities as Biloxi and Los Angeles were unable to adjust their rates according to their new cost structures, employment would suffer as more expensive labor would need to be cut. Some hotels may not be able to survive the new environment and would close their doors altogether, negatively affecting employment and tax revenue.

An additional detrimental outcome may be a slowing of hotel construction in local areas. Profitability has been linked to the market value of hotels (O'Neill, 2004), and therefore, with relatively low profit margins, newly constructed hotels would have decreased market values and could be sold at lower prices, further stunting local economies. If the industry's business model produces lower returns, business for hotel brokers, construction workers, hotel workers, food suppliers, guest room amenity

suppliers, laundry companies, etc., could suffer, especially in the case of hotel closures. Ultimately, investment in hotels would decrease, and the value of existing properties would decline, further contributing to sluggish industry performance. O’Neill (2004) found that the net operating income (a common metric for measuring hotel unit profitability) determines a hotel market value by a product of 5.615, so every \$1,000 loss in profitability would result in a \$5,615 value decrease per hotel guest room. Lower profitability of hotels would produce lower levels of employment in the industry, lower levels of employment in the industries that support and are supported by the hotel industry, lower levels of investment in hotels, and lower tax revenues for the municipalities in which hotels are located. An estimate of the economic impact is presented in the next section of this report.

Beyond the business side of the hotel industry, there is a human element, as well. The hotel industry is one where entrepreneurs can get started, and where hard work and humble beginnings turn into massive success stories. Take Isadore Sharp and Four Season Hotels as one such example of entrepreneurial success. On March 20, 1961, Mr. Sharp entered the hotel industry while still in his 20s with a 125-room motel in Toronto, Canada (Four Season History, 2014). It took Mr. Sharp more than five years to get enough investors behind his vision to start his hotel career, and through persistent work and dedication, he was able to turn that single motel into one of the most recognizable luxury brands in the world. Creating a less profitable environment through extremely high minimum wages may prevent people such as Isadore Sharp from convincing investors to create the next great hotel company.

The hotel industry is more than a vehicle for entrepreneurship because there is a strong tradition of promoting and progressing careers from within. For example, Bob McCarthy, Marriott International’s chief operations officer who retired in February of 2014, spent 38 years with the company starting as an hourly waiter in a Marriott hotel restaurant outside Philadelphia, PA (Marriot News Center, 2013). Such entry-level roles as Mr. Sharp and Mr. McCarthy held, are seen as traditional “routes to the top” in the hotel industry where there are numerous egalitarian stories of people starting in hourly positions and rising to high level, executive leadership positions (Cleveland et al, 2007).

An Estimate of the Economic Impact of an Extreme Minimum Wage Increase on the Hotel Industry

According to the U.S. Congressional Budget Office (2014), the effects of extreme increases in the minimum wage would be both positive and negative. Overall, real family income⁶ would increase by \$2 billion, with 16.5 million workers being directly affected by having their wages increase; however, per person, this increase amounts to only \$121 per worker in real income. The U.S. Congressional Budget Office (CBO) report (2014) also suggests that 900,000 people would be raised above the poverty line by an increase of the minimum wage to \$10.10 per hour, while 500,000 would lose their jobs. The same report (U.S. CBO, 2014) suggests that there also would be 15.6 million workers who experience wage rate increases, but who still would not pay federal income taxes, due to relatively low family income. The U.S. CBO (2014) anticipates corporate profits to decline due to slimmer profit margins which would reduce tax revenues overall through reductions in corporate income and personal income taxes paid by those who own businesses. Higher prices for goods and services would decrease demand, and lower demand might also reduce local sales taxes, such as hotel occupancy taxes. Additionally, more workers would become eligible for federally subsidized health insurance under the nation's new Affordable Care Act, and in states that have not accepted the insurance exchanges, the workers would remain eligible for Medicaid (U.S. CBO, 2014).

Based on the proposed minimum wage increases, hotels in Biloxi and Los Angeles, for example, would experience average daily rate increases of between 2.7 percent and 6.4 percent,⁷ assuming rates could be increased. If rates were successfully raised, demand would decrease resulting in lower occupancies for hotels in those areas. Demand nationally may decrease, as well, as hotel prices become more expensive overall. If prices were not increased, then profit margins would decrease as a product of more expensive labor costs. As a result of reduced demand and/or profitability, hotel values would decrease and development would slow.

⁶ Family income after adjusting for inflation and taxes

⁷ Aaronson (2001) found that prices increase 7% of the increase in the wage floor; i.e., in Biloxi, a 39% increase in the minimum wage from \$7.25 to \$10.10 per hour, multiplied by 7%, equals a 2.7% increase in prices ($0.39 \times 0.07 = 0.027$, or 2.7%); in L.A., a 92% increase in the minimum wage from \$8.00 to \$15.37 per hour, multiplied by 7%, equals a 6.4% increase in prices ($0.92 \times 0.07 = 0.064$, or 6.4%)

A Corgel and Lane (2013) study on price elasticity in the U.S. lodging market found that lodging demand would be reduced by 16 percent of an average daily rate increase, absent economic growth. As previously discussed, the proposed extreme minimum wage increase in Los Angeles would result in a 6.4 percent increase in hotel room rates. This increase would result in a 2.4 percent decrease in demand.⁸ In 2013, 27.2 million hotel room nights were occupied in Los Angeles (Los Angeles Tourism & Convention Board, 2014). Thus, the decrease in occupied room nights in Los Angeles due to the proposed extreme minimum wage increase would be 652,800⁹ room nights for the year. With the L.A. city average daily rate of \$162.53 (Baltin, 2014), an estimated \$106.1 million would be lost in hotel room revenue, and an estimated \$16.4 million would be lost in city occupancy taxes, using the 15.5 percent hotel occupancy tax rate for L.A. To make up the expected lost revenue of \$106.1 million, hotel owners would look to reduce costs, most likely resulting in layoffs

Demand for hotels may decline in a market with an extreme minimum wage because prices have been shown to rise with increases in the minimum wage (Aaronson 2001: Aaronson et al., 2008). The current proposal is to increase the minimum wage by 39 percent in the United States, as previously discussed. However, research by Katz and Kruegar (1992) observed that in an environment where increases to the minimum wage are occurring, the effects of raising the minimum wage also effect workers who earn up to a 10 percent premium on the new minimum, essentially raising the wage floor of low wage workers above the newly established minimum wage. Katz and Kruegar (1992) suggest this effect occurs because employers maintain a certain amount of their wage hierarchies; therefore, the increase in the wage floor (an artificial bottom for wages in a given market, not necessarily the true minimum wage) may actually be a 49 percent increase (39% + 10% where 39% is the true increase and 10% is the assumed premium on low wage workers). The 49 percent increase in the wage floor would be expected to raise prices in hotels by 3.4 percent.¹⁰ Corgel and Lane (2013) suggested that an artificial increase in prices (an increase in prices not brought about due to increased demand or

⁸ 6.4% (price increase) x 16% (demand reduction) = 2.4% demand reduction

⁹ 27.2 million room nights x .024 (demand reduction) = 652,800 lost room nights

¹⁰ 0.49 x 0.07 = 0.034, or 3.4%, where 49% is the percent of wage increase and 7% is the Aaronson (2001) price flow through factor, as previously presented

other market factors) would lower demand by a factor of 16 percent of the price increase, as previously discussed. Based on the calculated price increase of 3.4 percent, and Corgel and Lane's (2013) assumption of the prices for hotels being relatively inelastic at the rate of 0.16, then a 0.5 percent decrease ($0.034 \times -0.16 = -0.005$, or 0.5 percent) in hotel demand would be expected where 3.4 percent is the anticipated rate at which prices would increase, and 16 percent is the Corgel and Lane (2013) finding regarding the rate at which demand would fall.

In 2013, the average daily rate for a hotel in the U.S. was \$110.33, and approximately 3,040,000 hotel room nights were occupied in the U.S. per day, or 1.11 billion room nights for the year (PWC, 2014). Therefore, based on these figures, 5,550,000 room nights would be lost due to the extreme minimum wage increase,¹¹ and \$612,330,000 in room revenue would be lost.¹² In the U.S., local hotel room occupancy taxes range from 6.0 to 17.0 percent of the room rate, with an average of 11.5 percent (Proto Planning Travel Agency, 2014). Thus, approximately \$70.4 million would be lost in hotel room taxes nationally due to the \$612,330,000 reduction in room revenue.¹³

As a result of wage rate increases, the hotel industry would not only earn less, but spend less as a result of lower demand. Hotels spend an estimated \$25 to \$38 per occupied room (Toh, DeKay & Raven, 2011) to cover expenses. After removing estimated housekeeping labor expenses (assuming a half hour of wages at the national median wage rate for housekeepers of \$10.49 per hour as presented in Table 2), that leaves \$19.75 to \$32.75 that hotels spend per occupied room on items such as guest room amenities (soap, shampoo, conditioner, lotion, etc.), energy (electricity, water, natural gas, etc.), and laundry services (cleaning the sheets, linens, towels, etc.). Assuming that an extreme increase in the minimum wage decreases national demand for hotel rooms by an estimated 5,550,000 room nights annually as presented previously, U.S. hotels would spend an estimated \$145.7¹⁴ million dollars less in the overall economy due to a reduction in need for items like soap, cleaning supplies, water, and laundry services. L.A.

¹¹ 1.11 billion total room nights x 0.5% = 5,550,000 room nights lost

¹² 5,550,000 room nights x \$110.33 ADR = \$612,330,000 lost room revenue

¹³ \$612,330,000 lost room revenue x 0.115 = \$70.4 million

¹⁴ $(\$19.75 + \$32.75) / 2$ (average cost per occupied room) x 5,550,000 (estimated reduction in rooms sold) = \$145.7 million

hotels would spend an estimated \$17.1¹⁵ million dollars less in the overall economy based on its extreme minimum wage proposal.

A reduction in hotel demand would have deleterious effects on employment in the industry, as well. An estimated 1,586 housekeepers would lose their jobs in the U.S. due to the drop off in demand nationally,¹⁶ and approximately 187 housekeepers would lose their jobs in L.A.¹⁷ Housekeeping would not be the only department to experience reduced employment numbers, but other room department positions like front office attendants, bellhops, and concierges could be cut, as well. Additionally, support departments like reservations may experience a decline in employment levels to adjust the costs appropriately for lower demand. Finally, with fewer guests in hotels, fewer meals would be served, reducing food and beverage staff, and possibly elimination of struggling services like room service, as previously discussed. The loss in revenue in food and beverage may contribute to even more job losses through continuing the trend of eliminating the service from hotels altogether (Canina & Carvell, 2005). An estimated \$214.3 million would be lost in hotel food and beverage revenue as a result of lower hotel demand in the U.S.,¹⁸ and an estimated \$37.1 million would be lost in hotel food and beverage revenue in the city of L.A.¹⁹ To compensate for the reduced food and beverage revenues, hotel operators in the U.S. would need to eliminate 21.2 million wage hours at the \$10.10 rate, or 10,609 food and beverage jobs would be lost.²⁰ In L.A., hotel operators would need to cut 2.4 million wage hours at the \$15.37 rate, or 1,207 food and

¹⁵ $(\$19.75 + \$32.75) / 2$ (average cost per occupied room) \times 652,800 (estimated reduction in rooms sold) = \$17.1 million

¹⁶ $5,550,000$ room nights (estimated reduction in national demand per year) / 14 (number of rooms a housekeeper cleans in an average day) = 396,429 shifts; $396,429 / 250$ (number of shifts worked in a year based on 5 shifts per week for 50 weeks per year) = 1,586 people

¹⁷ $652,800$ room nights (estimated reduction in L.A. demand per year) / 14 (number of rooms a housekeeper cleans in an average day) = 46,629 shifts; $46,629 / 250$ (number of shifts worked in a year based on 5 shifts per week for 50 weeks per year) = 187 people

¹⁸ $\$612,330,000$ (total estimate of annual lost rooms revenue to the hotel industry) \times 35% (average percent of F&B revenue to rooms revenue; Schmidgall, 2006) = \$214,320,000 in lost F&B revenue

¹⁹ $\$106,100,000$ (total estimate of annual lost rooms revenue in L.A.) \times 35% (average percent of F&B revenue to rooms revenue; Schmidgall, 2006) = \$37,100,000 in lost F&B revenue

²⁰ $\$214.3$ million / \$10.10 per hour = 21.2 million wage hours / 40 (hours worked per week) / 50 (number of weeks worked per year) = 10,609 F&B jobs lost

beverage jobs would be lost.²¹ In summary, at least 12,195 jobs would be lost (1,586 + 10,609) in the U.S., and 1,394 jobs would be lost in L.A. (187 + 1,207).²²

In addition to the negative effects of job losses, lower revenues, less money being circulated back into the economy by paying suppliers, and reduced hotel room tax collections, the hotel industry would suffer from a loss of hotel valuation. O'Neill (2003) found that for every percentage point in occupancy lost, a hotel value would drop by \$690 per room. The previously discussed 0.5 percent reduction in national hotel demand would result in a 0.3 percent reduction in occupancy based on the 2013 U.S. occupancy level of 62.3 percent (PWC, 2014), or a \$207 loss in value per room.²³ Based on the 4.92 million hotel rooms in the U.S. (PWC, 2014), the reduction in value would be \$1.02 billion.²⁴ Based on the 97,032 hotel rooms in L.A., the reduction in value would be \$20.1 million.²⁵ It is plausible that the reduction in value would be even greater than \$20.1 million at the 87 L.A. hotels with 100 or more guest rooms if they were required to implement the extreme \$15.37 per hour minimum wage.

On average, every one percentage point in occupancy equates to \$61,864 in hotel profitability (O'Neill & Mattila, 2007). Given the previously discussed 0.3 percent reduction in occupancy, hotel profitability would be reduced by \$18,559.²⁶ Given the 52,529 hotels in the U.S. (STR, 2013), the total profitability reduction in the U.S. would be \$974.9 million.²⁷ Assuming a 15 percent corporate tax rate, if U.S. hotel profitability decreased by \$974.9 million, corporate taxes would be reduced by \$146.2 million. Given 1,038 hotels in L.A., the total profitability reduction in L.A. would be \$19.3 million,²⁸ and assuming a 15 percent corporate tax rate, corporate taxes would be reduced by \$2.9 million. It is possible that the reduction in taxes would be even greater than \$2.9 million at the 87 L.A. hotels with 100 or more guest rooms if they were

²¹ \$37.1 million / \$15.37 per hour = 2.4 million wage hours / 40 (hours worked per week) / 50 (number of weeks worked per year) = 1,207 F&B jobs lost

²² Note that this estimate is a conservative one assuming the only jobs lost are in the housekeeping and F&B departments, not other departments

²³ 62.3% x 0.5% = 0.3%

²⁴ \$207 value loss per room x 4.92 million rooms = \$1.02 billion

²⁵ \$207 value loss per room x 97,032 rooms = \$20.1 million

²⁶ \$61,864 x 0.3 = \$18,559

²⁷ \$18,559 x 52,529 hotels = \$974.9 million

²⁸ \$18,559 x 1,038 hotels = \$19.3 million

required to implement the extreme \$15.37 per hour minimum wage.

The total economic impact of an extreme minimum wage increase would be a significant strain on the U.S. economy, and would result in sluggish hotel industry performance. Table 4 outlines the total estimated economic impact to the U.S. hotel industry as a result of an extreme minimum wage increase to \$10.10 per hour.

Table 4 - Economic Impact of Extreme Minimum Wage Increase on the Hotel Industry and Nation

Affecting Factor	Impact	Result in Dollars
Lower Demand	Reduced annual guest room revenue	\$612.3 million
Lower Demand	Reduced annual food & beverage revenue	\$214.3 million
Lower Demand	Fewer guest rooms occupied resulting in less money spent for supplies	\$145.7 million
Lower Demand	Loss of housekeeping and F&B staff (total job loss at 12,195) ²⁹	\$320.2 million ³⁰
Lower Demand	Loss of hotel values	\$1.02 billion
Lower Demand	Lower hotel occupancy taxes collected	\$70.4 million
Lower Profitability	Lower corporate taxes paid	\$146.2 million
Total		\$2.53 billion

²⁹ 12,195 (number of lost jobs) x \$21,008 (full-time annual salary at \$10.10 per hour) x 1.25 (the calculation assumes a 25% premium for benefits at the new \$10.10 minimum wage rate) = \$320,200,000

³⁰ Note that this estimate is a conservative one assuming the only jobs lost are in the housekeeping and F&B departments, not other departments.

The following chart displays the types and quantities of negative economic impact anticipated in the U.S. from a minimum wage increase to \$10.10 per hour.

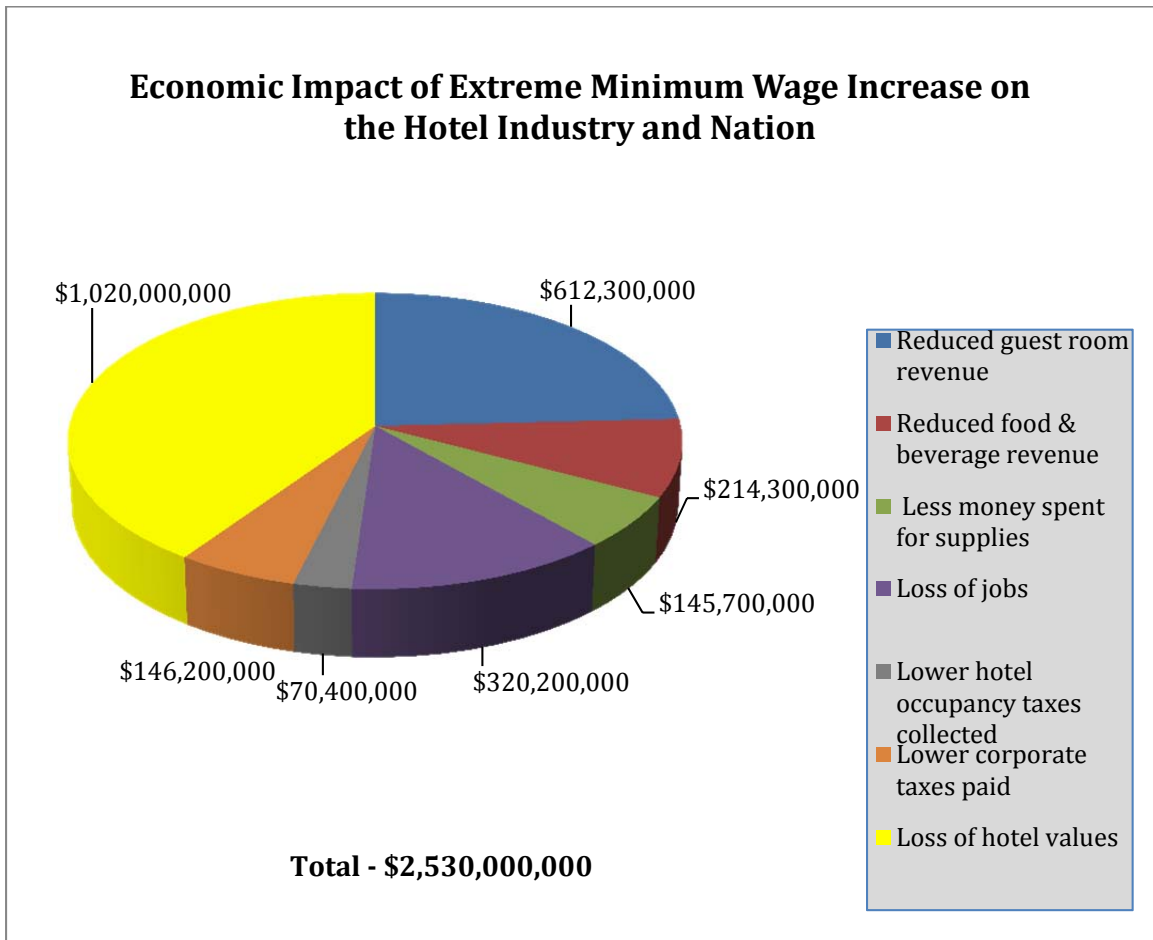


Table 5 outlines the total estimated economic impact to the L.A. hotel industry as a result of an extreme minimum wage increase to \$15.37 per hour.

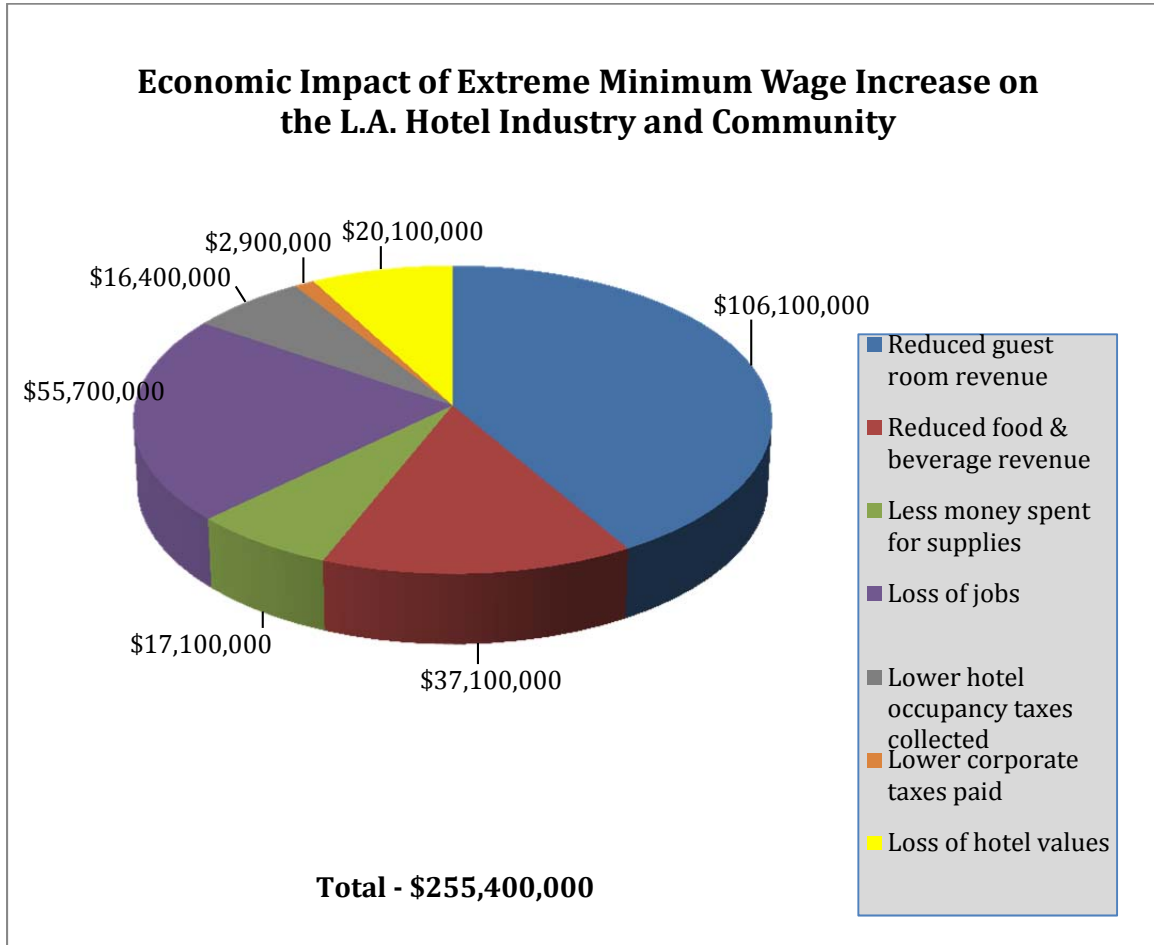
Table 5 - Economic Impact of Extreme Minimum Wage Increase on the L.A. Hotel Industry and Community

Affecting Factor	Impact	Result in Dollars
Lower Demand	Reduced annual guest room revenue	\$106.1 million
Lower Demand	Reduced annual food & beverage revenue	\$37.1 million
Lower Demand	Fewer guest rooms occupied resulting in less money spent for supplies	\$17.1 million
Lower Demand	Loss of housekeeping and F&B staff (total job loss at 1,394) ³¹	\$55.7 million ³²
Lower Demand	Loss of hotel values	\$20.1 million
Lower Demand	Lower hotel occupancy taxes collected	\$16.4 million
Lower Profitability	Lower corporate taxes paid	\$2.9 million
Total		\$255.4 million

³¹ 1,394 (number of lost jobs) x \$31,970 (full-time annual salary at \$15.37 per hour) x 1.25 (the calculation assumes a 25% premium for benefits at the new \$15.37 minimum wage rate) = \$55,700,000

³² Note that this estimate is a conservative one assuming the only jobs lost are in the housekeeping and F&B departments, not other departments.

The following chart displays the types and quantities of negative economic impact anticipated in L.A. from a minimum wage increase to \$15.37 per hour.



In summary, the total estimated initial economic impact to the U.S. hotel industry as a result of the proposed extreme minimum wage increase to \$10.10 per hour, considering loss of revenue, loss of jobs, loss of money going back into the economy, i.e., “trickle-down effect,” loss in property value, and the reduction in payment of taxes would equate to roughly \$2.53 billion dollars.³³ In L.A., the total estimated initial economic impact to the hotel industry as a result of the proposed extreme minimum wage increase to \$15.37 per hour is estimated at \$255.4 million. Such impact does not include the likely

³³ Note that this estimate is a conservative one assuming the national \$10.10 minimum wage increase is passed, and no higher local minimum wage legislation goes into effect. Also, other local taxes were not considered in the national number; therefore, the total economic impact is likely greater than \$2.53 billion.

effects of extreme minimum wage increase on promoting an underground economy, i.e., “under-the-table” work. Further, these figures represent estimated economic impact during the initial year; long-term effects would be greater.

Appendix - Executive Summary of Literature Review

A literature review regarding extreme minimum wages revealed the following:

- Extreme minimum wage increases are being proposed in Los Angeles that would increase the minimum wage by 92 percent (Rainey, 2014), and nationally by 39 percent (U.S. CBO, 2014).
- In Los Angeles, the proposed increase in the minimum wage would apply only to hotel workers, and would increase the minimum wage rate from the state minimum of \$8.00 to \$15.37 per hour (Rainey, 2014).
- After approval of an extreme minimum wage at the Seattle airport area (SeaTac), the city of Seattle is considering a local minimum wage of \$15.00 per hour (Wilson, 2013). Washington State's minimum wage is currently over \$9.00 per hour, the highest in the country.
- Additional extreme minimum wage increases have been proposed in San Diego at \$13.09 per hour (Horn, 2014), and in Providence, RI, at \$15 per hour for hotel workers only (Fredericks, 2014).
- The federal proposal would increase the minimum wage from the current level of \$7.25 to \$10.10 per hour (U.S. CBO, 2014).
- Researchers have long questioned the value and benefits of minimum wages, in general, and extreme minimum wage increases, in particular. Stigler (1946) stated, "Unless the minimum wage varies with the amount of employment, number of earners, non-wage income, family size, and many other factors, it will be an inept device for combatting poverty even for those who succeed in retaining employment. And if the minimum wages varies with all these factors, it will be an insane device."
- In the restaurant industry, minimum wage increases resulted in increased prices for consumers (Aaronson, 2001; Aaronson, French & MacDonald, 2008).
- In the San Francisco airport area, additional costs were passed on from a minimum wage hike. The companies who serviced the airport charged higher fees at the rate of \$1.42 per arriving passenger (Reich, Hall & Jacobs, 2005).
- In Boston, after the city passed a minimum wage increase that applied only to firms with a large portion of revenues from city contracts, prices did not increase, but profitability declined (Brenner, 2005).
- If the federal minimum wage were increased to \$10.10 per hour, an estimated 500,000 people would lose their jobs. If the minimum wage increased to \$9.00 per hour, an estimated 100,000 people would lose their jobs (U.S. CBO, 2014).
- Evidence from Russia (a nation experiencing rapid increases in minimum wages) shows that every 1.0 percent increase in the Kaitz ratio³⁴ leads to a 0.047 percent increase in unemployment (Muravyev & Oshchepkov, 2013). Russia experienced increases of the Kaitz ratio of approximately 100 percent in one year due to increases in the minimum wage, resulting in an overall 4.7 percent increase in unemployment (Muravyev & Oshchepkov, 2013).
- Muravyev and Oshchepkov (2013) found that when unemployment occurs due to

³⁴ The Kaitz ratio is the ratio of the minimum wage to the average wage.

- increases in the minimum wage, people take on more informal, i.e., “under-the-table” work, where they do not pay taxes or receive legal protections, and typically earn below the minimum wage. Informal work increased in Russia when minimum wages increased. Increasing informal work may lead to unmeasurable outcomes, such as a lack of access to affordable health care.
- Jobs are linked to functional communities, including relatively safe neighborhoods, healthy home environments, healthy lives, good nutrition, high quality childcare, and educational opportunities. Conversely, unemployment leads to negative outcomes such as increases in blood pressure, unhealthy coping behaviors, stress related conditions and increased depression (Robert Wood Johnson Foundation, 2013).
 - After the Supreme Court of the U.S. upheld the individual mandate of the Affordable Care Act (Sacks, 2012), those who have gained informal work will have to pay out of pocket to become compliant. Additionally, engaging in informal work will put people at risk by not having access to workers compensation claims, unemployment benefits, and they may not be able to cite their experience on their resumes when searching for better jobs.
 - In the late 1970s and early 1980s, the extreme minimum wage increase in Puerto Rico significantly increased unemployment, particularly in low wage sectors. (Castillo-Freeman & Freeman, 1992). Migration from Puerto Rico to the mainland U.S. increased, particularly among relatively uneducated and low-skilled migrants (Castillo-Freeman & Freeman, 1992).
 - Workers in the U.S. hospitality industry could be particularly vulnerable to the effects of benefit decreases as a result of extreme wage rate increases because unlike countries in Europe and Asia, the U.S. has limited laws regarding linking most benefits and employment, with the primary exception being the Affordable Care Act. Such benefit decreases occurred in South America in concert with minimum wage increases (Ferrada, 2010).

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