Date: 4/2/15
Submitted in Econ Dev Committee
Council File No: 14-1371, 14-1371-S1, 14-1371-S2
Item No.: 1
[redacted] Communication from the public

CALIFORNIA RESTAURANT ASSOCIATION

April 2, 2015

The Honorable Curren D. Price, Jr.
Chair of the Economic Development Committee
City of Los Angeles
200 N. Spring St.
Los Angeles, CA 90012

Re: CF 14-1371, CF 14-1371-S2 – CITYWIDE MINIMUM WAGE INCREASE

Dear Councilmember Price and Economic Development Committee Members:

On behalf of the members of the California Restaurant Association, I am writing to clarify our position on the proposed local minimum wage policy for the City of Los Angeles and restate the solutions we believe would allow the restaurant industry to survive.

Minimum wage increases often have a perverse effect on the restaurant industry. Although we recognize that an increase to the minimum wage for the general workforce in Los Angeles is likely to occur we are urging you to understand that an increase without targeted language to address the restaurant industry will ultimately cause unintended harm to those employees we are all wanting to help.

In our many discussions with City Council members and the Mayor, we have put forward several solutions that if adopted, could result in a smarter and more targeted minimum wage hike that could truly raise the living standard for the intended beneficiaries while giving employers the ability to keep the doors open. A thoughtful and balanced approach is what we are seeking.

We believe the City of Los Angeles has broad authority as a charter city to set its own citywide minimum wage and define eligible employees. We also know that targeting the LA minimum wage policy towards those who truly earn a minimum hourly wage is a smarter and more reasonable approach to helping the intended recipients of this increase. We further believe that exempting teenagers (without dependents) from the LA minimum wage would preserve entry level, first-time jobs at a time when they are needed the most. And lastly, we encourage you to phase any increase, incrementally, over a period time that would allow businesses to absorb what could be a devastating blow if implemented too quickly.

(1) Total Compensation Model:

We are suggesting a "total compensation" framework where employees whose total taxable and verifiable compensation is greater than the proposed local minimum wage would not receive the city minimum wage increase. This proposal would use the state minimum wage as the earnings floor, plus other taxable and employer-verified income as defined by the State of California. It would not be a "tip credit" or "sub-minimum wage" as some have inaccurately portrayed. To the contrary, we are suggesting a minimum guarantee of $15.00 in total hourly compensation for those tipped workers who would not qualify for the LA wage increase under this model.

Incorporating this solution would allow the restaurant industry to use their finite labor dollars to benefit those employees who are bringing home a salary based on wages alone and are most in need of additional compensation.

(2) A Training or Teen Wage:

The restaurant industry has long been an entry point for many young people into the job market. In fact nearly have of all adults have worked in the restaurant industry at some point during their lives and more than one out of four adults has their first job in a restaurant. Many of our young employees are unskilled, unexperienced and looking for a part-time opportunity while they are in school. For many years the restaurant industry has hired and trained these first time employees knowing that more than half will decide to leave their positions soon after being hired. Despite this risk the restaurant industry continues to employ our youth because they recognize their role in our communities and their unique ability to provide our youth with the skills and opportunity for growth.

We propose that the LA minimum wage exempt teenagers (without dependents), so that restaurants can continue to provide first time jobs and training to unskilled youth.

(3) Phase It In with Triggers

A gradual increase over time with built-in triggers to review any possible negative impact on business and adjust if necessary.

The state minimum wage was just increased in July 2014 and will go up again to $10 per hour in January 2016. The restaurant industry is characterized by razor-thin profit margins that range between three to five percent in a strong economy. Our members are busy working on ways to absorb the State increases, maintain their workforce and continue to price their product so that it is affordable to their consumer. We propose that any Los Angeles increase be gradual and stepped based on a thoughtful and reflective analysis process that would allow a regular evaluation of any negative economic impact on local business.

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Finally we wanted to address the reckless assertions made by some of the minimum wage increase supporters at the Van Nuys hearing on March 31, 2015. Much of their unfortunate rhetoric attacking our proposals were based on a lack of understanding or a lack of interest to understand the solutions we are offering for the restaurant industry. Instead the stated misplaced objections to federal tipped wage rules (which are irrelevant here) and shameful assertions of racism, sexism, wage theft and other charged assertions were an attempt to divert attention from the very real substance of our proposals.

Clearly you can see, by the sheer number of restaurant owners who have shown up and participated in this public process, our industry is made up of good employers that abide by wage laws and intend to continue to do so. These restaurant owners have shown that they care about the people they employ and their ability to keep their doors open so that they may continue to provide good jobs. The rhetoric and accusations that have been directed at the restaurant industry are simply false and designed to distract you from our real solutions.

We remain committed to working cooperatively to help the Council design a minimum wage policy that is a win-win for our hard working employees and the business community.

Respectfully Submitted,

Matt Sutton

Vice President, Government Affairs and Public Policy
California Restaurant Association

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Communication from the public

The Unappetizing Effect of Minimum-Wage Hikes

By Michael Saltsman

Last fall, voters in the Bay Area cities of San Francisco and Oakland followed Seattle's lead and approved costly new minimum-wage mandates ($15 an hour and $12.25 an hour, respectively) for most businesses in the city boundaries. Now the bills have begun arriving, and some businesses can't pay them.

The consequences of minimum-wage increases, at the historical levels studied in the U.S., are well known to labor economists. A summary of the research published last year by the Institute for the Study of Labor, and authored by University of California-Irvine economist David Neumark, found that each 10% hike in the minimum wage on the state and federal level has caused a 1% to 2% drop in youth employment. Similarly, researchers at the Federal Reserve Bank of Chicago found an increase in fast-food prices associated with the same wage change.

Given the scope and schedule of these new minimum-wage increases, the impact on prices and employment may be even steeper this time. The current federal minimum wage is $7.25, half of what San Francisco's wage floor will be set at by 2018 after a series of increases that begin in May. Nationally, Congress phased in the last 40% increase to $7.25 over a three-year period; in Oakland, an almost-identical 36% increase happened overnight on March 1.

Businesses' first line of defense against these labor-cost increases is an offsetting increase in prices. The magnitude is staggering: In Oakland, local restaurants are raising prices by as much as 20%, with the San Francisco Chronicle reporting that "some of the city's top restaurateurs fear they will lose customers to higher prices." Thanks to a quirk in California law that prohibits full-service restaurants from counting tips as income, other operators—who were forced to give their best-paid employees a raise—are rethinking their business model by eliminating tips as they raise prices.

In San Francisco and Oakland, restaurants are already shutting down.

Ironically, this change in compensation practices has reduced the take-home pay for some of the employees it was supposed to help: At the Oakland restaurant Homestead, the East Bay Express reported that servers are taking "a substantial pay cut," earning a flat wage of $18 to $24 an hour and no tips instead of the $35 to $55 an hour they were accustomed to earning when tips were included.

Though higher prices are a risk that some businesses were able to take, others haven't had the option. The San Francisco retailer Borderlands Books made national news in February when the owner announced that the city's $15 minimum wage would put him out of business, in part because the prices of his products were already printed on the covers. (A unique customer fundraiser gave Borderlands a stay of execution until at least March of 2016.)

One block away from Borderlands, a fine-dining establishment called The Abbot's Cellar—twice selected as one of the city's top-100 restaurants—wasn't so lucky. The forthcoming $15 minimum wage, combined with a series of factors like the city's soaring rents, put the business over the edge and compelled its owners to close. One of the partners told me the restaurant had no ability to absorb the added cost, and neither a miraculous increase in sales volume nor higher prices were viable options.

These aren't isolated anecdotes. In the city's popular SoMa neighborhood, a vegetarian diner called The Source closed in January, again citing the higher minimum wage as a factor. Back across the Bay in Oakland, the Chronicle reported that some of the city's businesses have been similarly affected. According to a board member of the Oakland Chinatown Chamber of Commerce, 10 restaurants or grocery stores opted to permanently close this year alone as a partial consequence of the wage hike. Even the Salvation Army's child-care facility is "scrambling to find ways to keep the doors open" in response to labor cost increases, according to the organization's county coordinator.

Faced with convincing evidence of the policy's failures, you'd think advocates would be chastened or apologetic. You'd be wrong: Ken Jacobs, who runs the University of California-Berkeley's labor-backed Center for Labor Research and Education, chalked up possible consequences of new mandates to labor-market "churn." Research that Mr. Jacobs co-authored predicted that the Bay Area hikes would be mostly cost-free. At a forum earlier this month where dozens of Oakland business owners fretted about their viability, representatives of Lift Up Oakland—the labor union-backed coalition that advocated for the wage hike—were not in attendance.

It's probably too late to save other Oakland and San Francisco businesses. But it's not too late for cities like New York and Los Angeles to heed the evidence before following their footsteps.

Mr. Saltsman is research director at the Employment Policies Institute, which receives support from restaurants, foundations and individuals.

3/25/15
WSJ

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Council File No: 14-1371 14-1371-S1

Item No.: 1 14-1371-S2

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MINIMUM WAGE RAISE

WORKS ONLY WHEN DONE RIGHT

HERE'S HOW:

1. RECOGNIZE THE DRAWBACKS:
   a. The higher you raise the minimum wage, the higher prices go up in the market place. Raising too high, too fast, can cause prices to soar. Soon $15.00 per hour has no more purchasing power than $9.00 had. Soon low income workers are in the same predicament as they were before the minimum wage raise. Inflation increases more rapidly.

   b. Not all will receive the minimum wage gain. Some will get a lay-off notice instead. This is so employers can afford to pay other workers at the higher minimum wage. Employers have to raise wages of those already at $15:00 per hour and at a higher level position; a financial burden to companies.

   c. Many retirees, the disabled, and others on fixed incomes will fall financially behind, because they don't receive the same level of increase in income. Some will then have income that falls below the income of minimum wage workers. For example, when minimum wage workers got a one dollar increase in 2014, they got an $8.00 per **day** raise, while many on Social Security got only an $8.00 per **month** raise.

2. SOLUTIONS: HAVE ADDITIONAL LAWS IN PLACE AT THE SAME TIME THAT YOU RAISE THE MINIMUM WAGE, SO THAT NO AMERICAN IS LEFT BEHIND FINANCIALLY, WHEN THE MINIMUM WAGE IS RAISED. HERE ARE SOME SUGGESTED POSSIBILITIES.
   a. Social Security raises should not be at a lower percent than minimum wage workers. Neither should those with pensions, on disability, or S.S.I.
   b. Lowering taxes further for all low income Americans, including those mentioned above
   c. Increase the amount of low income required to qualify for government programs.
   d. Give more renters' credit to those with low income.
   e. Give tax breaks to companies that pay all their workers an income that meets the cost of living, and so that all Americans have money left to visit family and friends far away, give gifts during holidays, take on a movie, or other recreational activity now and then, and for those unexpected emergencies!

3. **IF THE UNITED STATES IS TO BE AN EXAMPLE OF DEMOCRACY TO THE REST OF THE WORLD, THEN SOMETHING NEEDS TO BE DONE ABOUT THE VAST DISPARITY BETWEEN THE HIGHLY OVERPAID, THE MIDDLE CLASS INCOME, AND THE LOW INCOME AMERICANS, WHILE KEEPING LOW UNEMPLOYMENT.**