



MITCH O'FARRELL
 Councilmember
 Thirteenth Council District

Arts, Parks, Health, Aging and
 Los Angeles River
 Chair
 Personnel and Animal
 Welfare
 Vice-Chair

Date: 10/28/14
 Submitted in Econ. Dev. Committee
 Council File No: 14-1371 and 14-1371-S2
 Item No.: 1 + 2
Commentary from Councilmember
 Education and Neighborhoods O'Farrell
 Member
 Innovation, Technology and
 General Services
 Member
 Public Safety
 Member

October 28, 2014

Council President Herb J. Wesson, Jr.
 Councilmember Curren D. Price, Jr.
 Chair, Economic Development Committee
 200 N. Spring Street
 Los Angeles, CA 90012

Dear Colleagues:

Before you today are two Council motions (Council Files 14-1371 & 14-1371-S2) regarding the establishment of a citywide minimum wage policy. I support addressing the growing income inequality gap, and I know that raising the minimum wage in conjunction with other efforts to make the City of Los Angeles an even better place to live and work in are actions we must take.

This is an important policy that will impact approximately 567,000 workers, representing about 37% of the total workforce in Los Angeles. Los Angeles has the greatest amount of workers that would benefit from a citywide minimum wage, and the City Council is considering the highest minimum wage to date, when compared to other municipalities. I encourage each of us to spend the necessary time to develop a minimum wage policy that is effective for workers, businesses, and the local economy. To that end, I have requested that a study be commissioned and completed prior to the adoption of a citywide minimum wage policy and accompanying ordinance.

Currently, we have a policy brief, *The Mayor of Los Angeles' Proposed City Minimum Wage Policy: A Prospective Impact Study*, that was prepared for Mayor Garcetti by Michael Reich, Ken Jacobs, Annette Bernhardt and Ian Perry. I believe we need an additional study to analyze the impacts of the proposal on small businesses and nonprofit organizations. The additional study could help us address the unintended consequences of a citywide minimum wage policy such as layoffs, reduced worker hours, reduced federal benefits, and business closure.

I have attached a report from D&B Government Solutions that provides an overview of businesses with 50 employees or less within Council District 13. This report, along with the small business roundtable and the business survey I circulated, have been very helpful to me in understanding the small business universe and its needs. The report is very telling; there are 9,798 active businesses operating with 50 employees or less, and 4,030 of these businesses score on the *high risk* end of the financial stress score. The financial stress score is based on items like business payment behavior, ownership of facility, years in business, total number of employees and financials such as receivables, payables, current liabilities, current assets, working capital, and net worth. The score is used to predict a business's chance for success and as evidenced by this data, there are many small businesses that are vulnerable and must be addressed carefully within a citywide minimum wage policy. This is especially critical since the State raised the minimum wage to \$9 an hour in July 2014, and will raise it to \$10 an hour in January 2016. I believe small businesses should be allowed to absorb these increases and any citywide minimum wage policy should not disadvantage small businesses in the City, especially when borders are shared with





Glendale, Burbank, Pasadena, and other neighboring municipalities with no significant increase in effect. In fact, according to the Reich policy brief, the minimum wage to median wage ratio will increase to just under 50% when California's minimum wage increases to \$10 on January 1, 2016. The ratio of the minimum wage to the median full-time wage provides another measure to determine the ability of the economy to absorb higher minimum wage levels. The proposed minimum wage of \$13.25 (in 2014 dollars) is 59% of the 2014 median full-time wage in Los Angeles of \$20.81 an hour.

Recently, the City of Seattle passed a ballot measure that will raise its minimum wage from \$9.32 to \$15 incrementally over several years. Seattle's minimum wage policy was developed by a 24-member Income Inequality Advisory Committee. Seattle realized public outreach and engagement are of utmost importance and the committee was given five months to develop the proposal. The thorough discussion based on the facts led to a result which many could live with: a phased-in approach with credits given to business owners who offer health care and other non-wage compensations. Los Angeles needs to study this approach and learn from it. Specifically, in Seattle's minimum wage ordinance, employers with more than 500 workers that don't offer employer-sponsored health insurance have three years to comply with the new law. Employers with over 500 workers that offer health insurance have four years to comply and employers with less than 500 employees have up to seven years to comply. The Seattle minimum wage also contains provisions for nonprofit organizations and workers under the age of 18.

Poverty is a real issue in Los Angeles and it is driven by many factors -- from low wages, to the affordable housing shortage, to the lack of educational achievement. I know that the 567,000 people that could benefit from a wage increase are hardworking, well-deserving individuals, and I am committed to developing a citywide minimum wage policy. I want to avoid crafting a policy that does not allow a slower phase in for smaller businesses. I believe that will hurt our local economy and the very businesses that make our commercial corridors unique. I also will not support a policy that does not give credit for nonwage compensation; this is especially important in the restaurant industry where wait staff must be paid the minimum wage per State law but also earn tips. As cited in the policy brief by Reich, the restaurant industry might experience reductions of growth representing about 560 fewer new jobs per year. Additionally, restaurants pay approximately 31% of their operating costs towards labor costs, excluding health benefits, which make them very sensitive to wage increases.

There is significant momentum towards raising the minimum wage and I want to take this opportunity to do it right. This is our moment to show that Los Angeles can tackle the major issues. Let's engage in a deliberative process which includes off-site committee meetings and town halls. I ask for your support in developing a responsible and responsive policy and request that you adopt the motion that I co-introduced with Councilmember Blumenfield as presented.

Sincerely,

A handwritten signature in black ink that reads "Mitch O'Farrell".

MITCH O'FARRELL
Councilmember, 13th District

CC: Los Angeles City Council

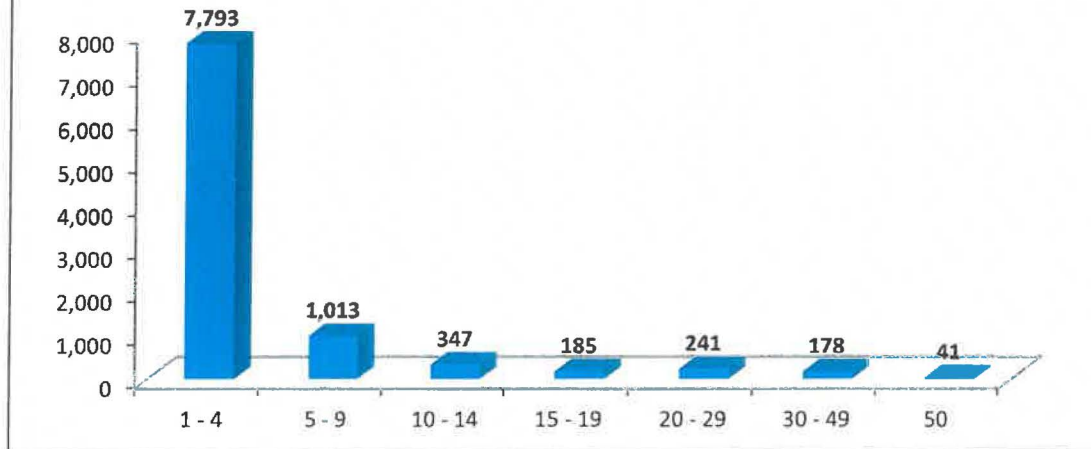
D&B Government Solutions

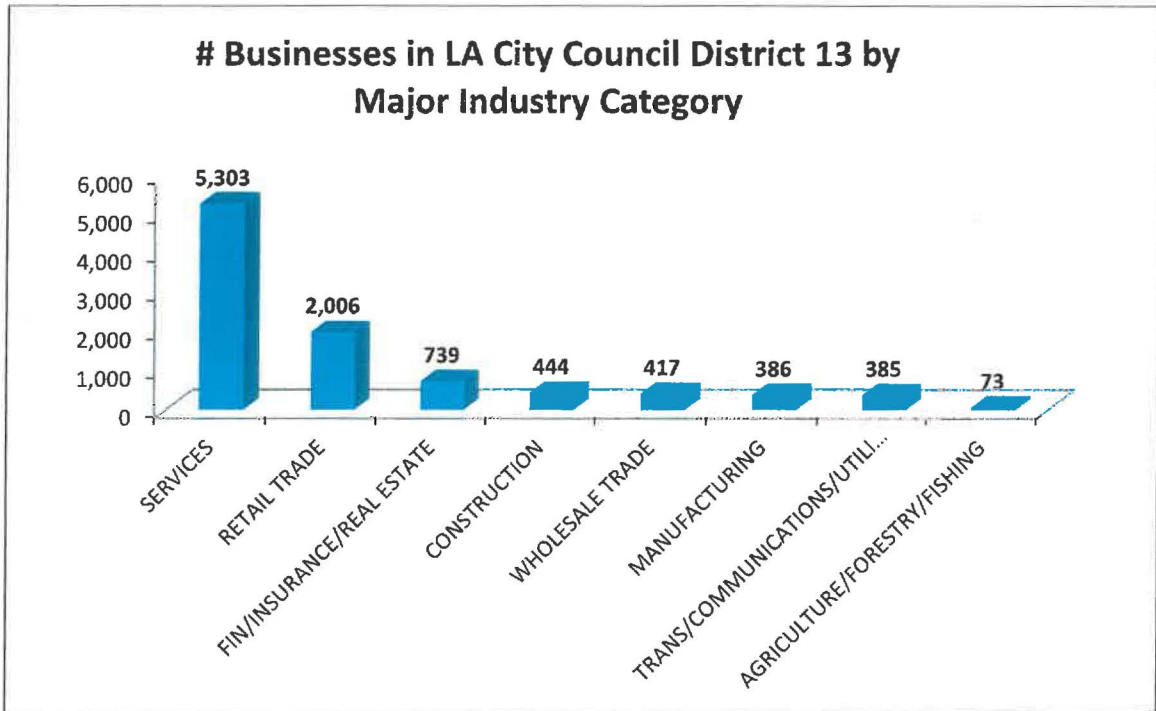
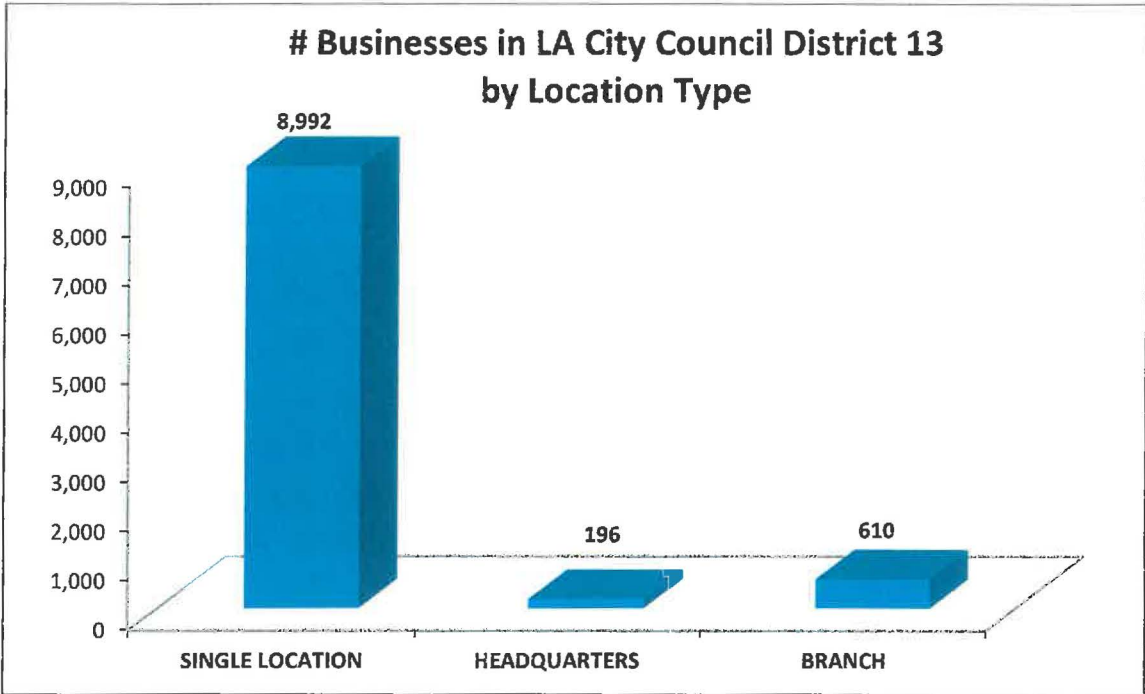
– LA City Council District 13 Overview, September 2014

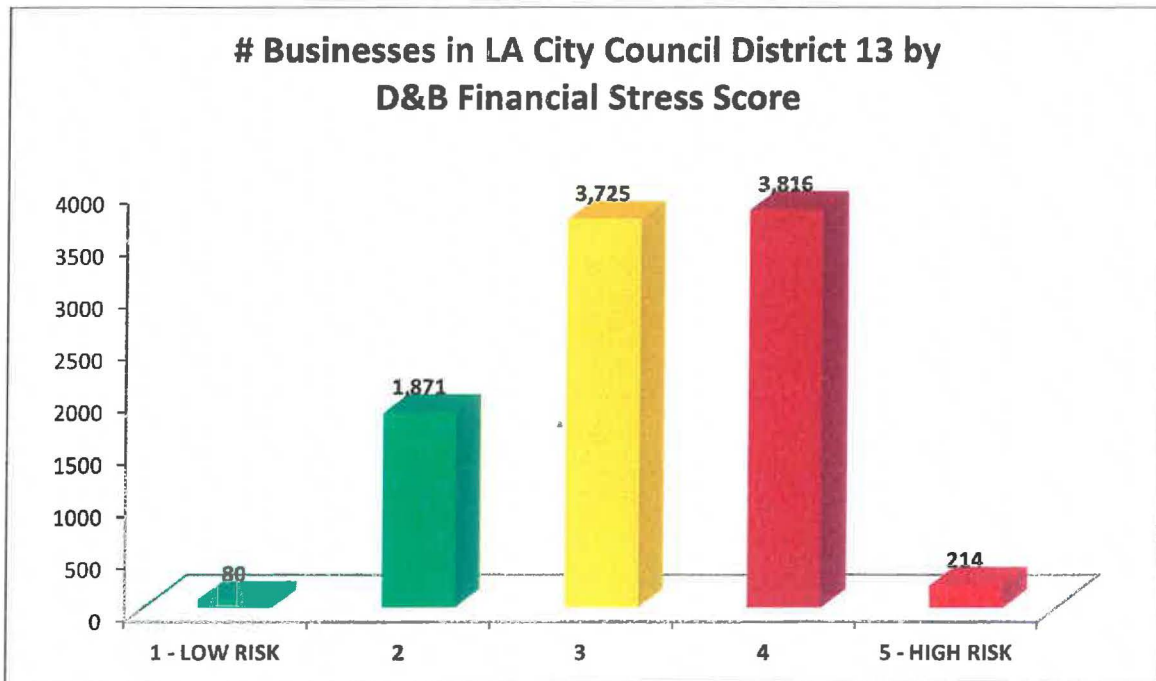
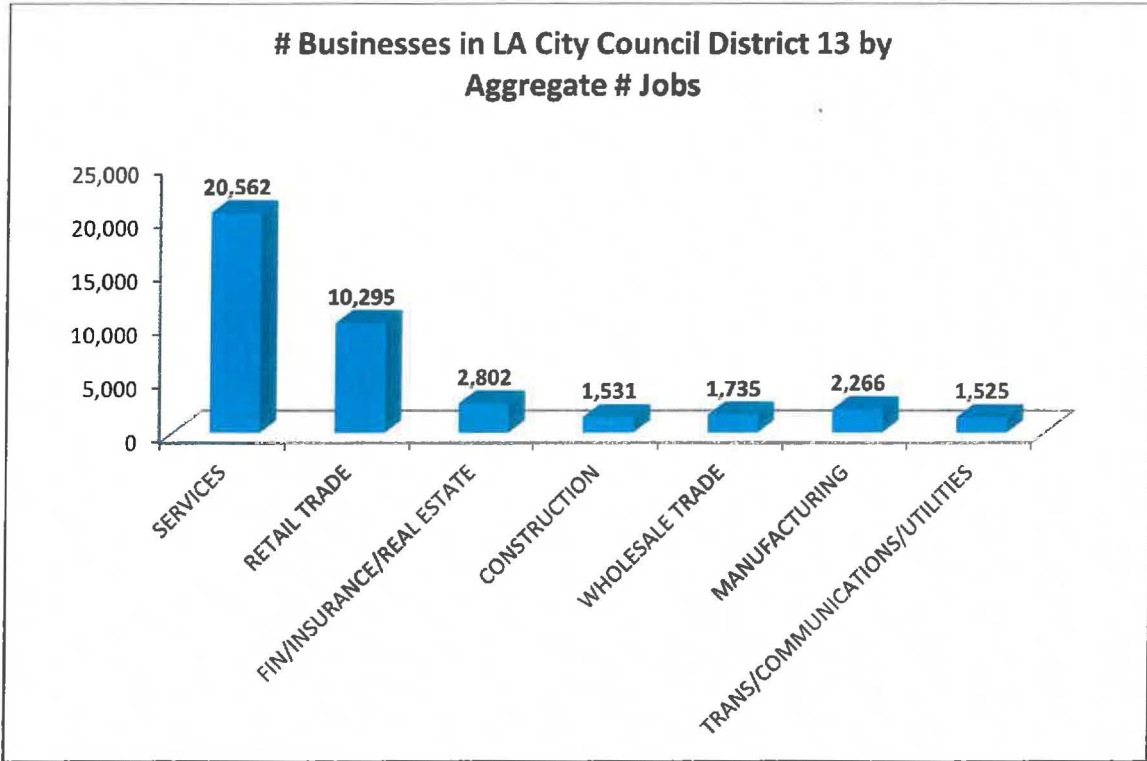
- 9,798 Active businesses operating with 50 or less employees per Site location



**# Businesses in LA City Council District 13
by Employee Range**







Jobs in LA City Council District 13 by D&B Financial Stress Score

