

By George Abou-Daoud, a local small business owner and employer, former economist, small business supporter and labor supporter.

This brief letter is on behalf of small businesses, entrepreneurs, innovators, artists, charities, and the people who make Los Angeles great. Those who put their lives, time and life savings towards creating something for themselves, for their employees and for their city. Those who constantly face the burden of new directives from the many government agencies that continues to put pressure on these small businesses.

This document is not to defend big chains and businesses, and is strictly written to defend small businesses from the fully and completely misunderstood economy of a small business, particularly small restaurants, retailers and charities, who are perceived by the mayor as rolling in cash, and also propagated by theories from a university economist in Northern California and not via true analysis and facts from businesses in Los Angeles. Businesses who the mayor and city council have direct access to, and can speak with regarding factual, not theoretic data. Council people who have not met with small businesses are simply not doing their job, as we are part of this equation, not only workers and Berkeley economists.

A very hasty decision to cause an increase in the minimum wage is being proposed, even though the minimum wage has increased at an escalated rate versus prices over the last decade from the state. While politics obviously plays a very major role in the decision to publically make this announcement on Labor Day, and without the proper research and understanding, politics cannot trump facts. And the facts are that many small businesses lose money and operate on very tight margins. The economy of a small business is wildly different than the mayor perceives it to be, and therefore facts need to be brought to the council.

Facts are a good thing. Math is a good thing. Please support these ideas, listen to the facts, study the math and then make a decision. Wanting to raise the wage, as all small business owners do, and in contrast, actually being able to, are two very different things. We would like to be the hero too, but we are subject to reality and math, and not political motivation.

FAILURES OF THE CITY AND "PASSING THE BUCK"

The failures of the City to move people out of poverty is causing the city again to turn to the small businesses to cover their mistakes and shortcomings. Because the city has not been able to effectuate low-income housing, allow for affordable education on all levels, or promote proper economic policy, the city turns to the easiest target that holds no lobbyists, well-paid attorneys or a collective voice – small business. Small businesses are just that. Small. Local. Low margins. Not a lot of money. The proposal to increase the minimum wage rose out of the very public debate with large fast food chains and employees. Small businesses are NOT the same, nor have balanced labor cost portfolios between other low wage cities, and can't be looped together.

The call for an increase in the minimum wage, on Labor Day, in grand form, is a very flamboyant approach to pretending to lift people out of poverty. As much as it won't affect the huge online retailers who compete with the small local shops, and as much as it won't affect the big chains, fast food outlets and international chains, it will dramatically affect small local business, the casualty of war from the mayor who seemingly supports big business and labor.

It is however, politically smart and a good show to suggest raising the wage even though small businesses will be hurt, as there are more votes in labor and more money in big business. Small businesses-- the essence of Los Angeles will continue to be hurt.

Even at higher wages than proposed by the mayor, the cost of living in Los Angeles is outrageous. Specifically, the cost of housing in Los Angeles has become impossible not only for those who make minimum wage, but even for those with higher wages and even higher educations. The cost of housing is the number one cause of poverty in Los Angeles. Rents continue to increase; property tax escalations remain protected, low-income housing or better rent clause escalations don't exist and the city continues to allow this. When rents are unbearable and education is unavailable, poverty will exist.

Luckily for the city and the state of California, restaurants and some small businesses who hire those who've lost their jobs, in between jobs, looking for additional income, just moved to Los Angeles from another state or another country, are unskilled, have no education, have an education but no jobs are available, and much more, are there to catch the majority of people falling through the city's broken net.....hence, restaurants and small businesses are the Real Unemployment Insurance.....

THE REAL UNEMPLOYMENT INSURANCE

Small businesses fill the unemployment gap. The state unemployment insurance is a mediocre shadow of what small businesses do for the economy. Small businesses employ a range of people from the unemployed, unskilled, between jobs, waiting-for-my-big-break, needs more income, needs a summer job, and more. Small businesses are not companies that hire based on higher education and academic credentials. They hire the majority of people who simply need work. With skills or not, and this practice is only found in this sector, as wages are perceived as low, but it fulfills the needs of both parties in the economy of a restaurant or small business.

Take the sign in the window example of "Help Wanted". This is as old as the modern economy itself. Yet, you will only find these signs in small restaurants or retail shops. Not in the window of a law office, medical practice or City Hall. Not in an architects office or a

service company. The very existence of small businesses relies on this appropriate wage level. The wage in restaurant and charities and other small businesses is at that minimum for a reason, as the margins are none to low, the amount of employees required is very high and the skill required is none. Anyone can walk into a restaurant or a retail store and be hired, hence economics 101 of these industries. You can't change the economy of a restaurant, charity or small business. They operate with many people, as that is needed, with lower wages than other sectors, as that is the math. Small businesses that are being targeted here are those that pick up the pieces of any city's economic needs and continually fill a void.

Further, Los Angeles particularly will also always have a higher unemployment rate, as it's the capital of both the artist moving here for a dream and the worker / laborer coming to pursue better living from other countries. That's not going to change. Luckily for the mayor and the city council, small businesses are here to keep unemployment in check and help you look good.

PERCEPTION AND MISCONCEPTION

Small business employees often times get lumped into the pile of perception of large industrial factory employees, as seen and documented in recent media. Small business owners are intimately familiar with their employees, their families and their lives. Small business owners are not evil people forcing undesirable labor on people. In contrast, it's the exact opposite.

The politicians deceive the public and labor into assuming that small businesses are evil, hold employees hostage, destroy their lives, create horrible working conditions, have no care or love for their staff and are feudal overlords. This perception only fuels their fires and prevents proper conversation. Small business is not the same as a multi-national or chain with varied portfolios in regions where wages are unlivable and costs are lower. Los Angeles small businesses are local, small, and sell only to a local market.

No one loves their staff more than small businesses. But with politics in play, it will give the appearance that the city is caring, and small business is negligent, while creating a whirling downward effect of unemployment of unskilled workers who use small businesses and retail as buffers and havens for employment. Most small business owners and charities work side-by-side with their employees, and over the course of time, many make the same or less money than their employees. These people can't be put at the butcher block of political motivation.

Small businesses, like restaurants who typically employ 40 people and more, where payroll makes up over half of their gross income, can't viably bare an increase in the wage, especially at the escalated levels requested by the mayor. The state has already increased the minimum wage multiple times in recent years, doubling it over a decade. And of course all small business owners want to pay their employees more. Of course, but in most cases they simply can't. Prices didn't double over a decade in the non-luxury sector as the minimum wage has already done and is expected to even more. The flawed analysis that simply raising prices to the consumer will cover the difference is absurd and any economist who suggested it should look into a different line of work.

Most local small businesses already operate on the tightest of margins, where the owners are part of the day-to-day operations. The war on small business needs to end. Many people who pursued the "American Dream" and put their money, their lives and their tears and blood in to their small businesses will be told in one voice from the city and the mayor, thanks but no thanks. Mind you, small business owners are the labor vote too, just less people. Small business owners are the working class as well.

Small business owners should be allowed to make money. They should be allowed to be rewarded for their efforts. Every single time it looks like there's a light at the end of the tunnel, another city, county, state or federal agency adds more burden, and they simply don't converse with each other, operating in independent fashions, not understanding how collectively they are destroying small business. This wage hike doesn't happen in a bubble.

THE ECONOMY OF A RESTAURANT

The economy of restaurants is as follows. Must employ many people to operate, payroll makes up the overwhelming majority of expense (an absurd range of 40 to 70 percent of gross income), margins are slim, and it's a choice for consumers, not a necessity. Historically known as a high failure business, the mayors' proposal is an aggressive move that will close many, and ruin many peoples lives, from those who own and operate them to those who work there. Further, a full service restaurant doesn't collect 20% of its daily revenue, as it goes directly to employees in tips, with no tip credit.

MATH

Much analysis can be done here, but simply stated, the price of goods in the non-luxury sector have not increased at the rate of the minimum wage. Without a degree in algebra this statement speaks volumes. Wages have already doubled in ten years, while consumer elasticity has only increased 20%. Even attempting to increase to 30% gets you nowhere near. Meanwhile, rental rates have doubled in ten years, as have medical costs and education. Of course these are too difficult for the city to remedy, so chasing after small business is the easy option.

In 2005 a restaurant burger (not fake fast food) costs the consumer \$9. At the time the minimum wage was \$6.75. Margins on operating a restaurant were still very tight at that time. In 2015 if the minimum wage is expected to be twice the 2005 level, with even tighter margins now (as utility, food and rental prices have all increased dramatically), would an \$18 burger be viable for a consumer to pay? Absolutely not. But that's the math.

Further, the mayor has indicated on his own, that he will look into the tipped employee wages and see about this issue. Whereas an employer does not collect up to 20% of its daily gross income, as it goes directly to tipped employees, that portion of consumer spending reaches its maximum in the non-luxury restaurant sector. The problem is, the wage measure is on the agenda to move forward before that issue is looked into, and the fallout from the aftermath will occur before and not after. That's really putting the cart before the horse. No employer is contesting tipped wages, or the system that has been in place for decades, but the wage increase again, is being looked into inside of a vacuum.

Further fix the workers comp nightmare first. Be a responsible governing body, representing the largest city in the state, and make something happen. Show your support for the employers as you do for labor. Everyone on the council and in the mayors office makes more than the majority of small business owners.

WAGE ESCALATION

Small restaurants, coffee shops, boutiques, purveyors of goods, and creative shops are the catalysts for neighborhood improvement. They are communal gathering grounds. They should be supported, not attacked. For restaurants, payrolls represent over half of their gross income. Set aside all other costs and take that in for a moment. That's insane but true. An increase in the minimum wage doesn't end there. A dishwasher making \$13.25 (actually \$17 out-of-pocket to the employer) per hour (same as a paralegal or medical assistant), translates to a line cook then going to \$16 (\$20 per hour out-of-pocket), a senior line cook to \$18 (\$22 per hour out-of-pocket) and upwards for everyone else. So without further delays or dancing around the issue, the mayor and council should announce the closing of a slew of businesses across the city. The economy of a restaurant is based on the minimum wage being at a minimum. The people who fill the minimum wage jobs are either tipped employees or very unskilled and find work in these sectors. No skill sets, no education, no requirements. Filling the gap. Hiring many people. Many people at a fare rate. That's the model and it can't change. The math doesn't work.

ACTUAL PAYROLL COST & THE PLIGHT OF STATE POLITICS

By all accounts, businesses already pay over \$13.25 per hour per employee, for those currently receiving \$9, as payroll taxes, and workers comp insurance per employee, add at least an extra \$4 per employee, per hour, every pay period.

The Mayor's office will certainly give lip service on looking to help remedy the seriously mismanaged, poorly operated state workers comp insurance industry. The fact that someone with no viable claim, can file any claim against any employer for absolutely anything, and have no fault or repercussion for perjury, false claims and illegal activity is disturbing at the least.

Payroll tax is a huge burden for the employee and the employer. I'll tell you how to increase the minimum wage to more than even what the mayor is proposing. Get rid of the payroll tax for employees and for employers. But that process is too hard, too difficult, and won't garner political points locally or from a national labor audience.

There has to be an exemption for small businesses. Be certain this increase will close a multitude of small businesses. The cost of food, material, rent, repairs and maintenance, unsecured property tax, sales tax, property tax, net charges, and so much more make it unaffordable for small local businesses that certainly want to pay higher wages, but with the City, the State and the Federal Government's constant bombardment of taxations, fees, assessments, and more, plus business operating expense, it makes it impossible to.

THE WINNERS AND THE LOSERS

If the mayor wants chain restaurants, chain convenience stores and chain shops, he'll have that very soon, and Los Angeles, one of the world's most innovate and creative cities will lose its edge. It will become, anywhere USA. Speak to real estate brokers who can detail how many new businesses have put plans on hold, stopped looking for spaces or are looking outside of the city for better and affordable opportunities.

The winners in the wage hike will be large regional, domestic and international food producers and restaurants, and retail chains. Online retailers, chain restaurants, and the industrial food system of modified "food" will win again. The small restaurants who support local farmers, the revival of great butchers, small artisan coffee shop, food purveyors, galleries, artists, charities, jewelry makers, clothiers and more, will suffer at the hands of politic aspiration.

Further, small local businesses can't outsource their work to a call center or a distribution warehouse in an area with a lower wage. The very under-the-radar punishment for hiring people in this state and in the city has to end. The government should support small business and it's growth, as that is what makes this city great.



Richard Williams <richard.williams@lacity.org>

Letter for committee members for Tuesday, October 28

Andrew Casana <apcasana@gmail.com>

Sun, Oct 26, 2014 at 4:32 PM

To: "Richard.Williams@lacity.org" <Richard.Williams@lacity.org>

Dear Economic Development Committee,
7-11 Franchisees have been meeting with some of you and other Los Angeles City Councilmembers discussing the impact of an increase in the minimum wage. We know that there will be an increase in the minimum wage in the City of Los Angeles. We are realistic about that and that is why our Franchisees are meeting with Council and staff to discuss ways the City of Los Angeles can help small business owners by looking at ways to change certain programs like the permits that the Franchisees have to pay. We have been told there are twelve permits for the City of Los Angeles alone.

The Franchisees have ownership of their stores. They pay the payroll, taxes, permit fees, utilities, workers comp and run their store. So they are small business owners. Of the 800 7-11's located in Los Angeles County(80 in the City of Los Angeles) only six are corporate owned and they are training stores to train Franchisees and staff.

So we respectfully ask you to vote for motion two to have this issue researched and to give our Franchisees a chance to personally meet with all of you and your counterparts to discuss ways that the City of Los Angeles can help small business owners when the minimum wage increase passes.

Unfortunately none of our Franchisees will be able to attend the hearing because they are at a conference out of state. But meetings will resume the following week after with Councilmembers.

Thank you for taking the time to hear our concerns

Sincerely,

Andrew Casana
Director of Government Affairs
7-Eleven Inc.
[310-800-4734](tel:310-800-4734)

Sent from my iPad