

CATALINA'S MARKET



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RE: Minimum Wage Increase

STORE BACKGROUND AND IMPACT OF THE MINIMUM WAGE INCREASE

My family has owned a grocery store in east Hollywood for 44 years. When we started, we were the definition of a family run small business. My Grandparents cut the beef and ran the meat department. My Father handled the deli and grocery floor. My aunts tended to the registers. All profits were used to buy more inventory. My family worked hard and lived frugal lives to get ahead. At one point, my Father slept in the bath tub because their one bedroom apartment was not large enough for their 6 member family. We have been in this community for a very long time, but our business will close if the proposed wage increase goes through.

To put it simply, we cannot afford the wage hike. A rise from \$8 to \$13.25 is a 66% increase! My sales will not rise by 66%. The costs to operate in Los Angeles will not decrease by 66% to help absorb the added labor expense. Managers will be too expensive to attract if the starting pay for an unskilled worker is \$13.25. How do I please the current employees that make \$6 or \$7 above the minimum? What about workers comp? My bill will be even higher because workers comp is based on total payroll. How can one survive in Los Angeles when workers comp is a major problem, city fees continue to increase, product costs rise every year and now wages will go up by 66%? Unfortunately, we will be a casualty of this increase.

A raise in the minimum wage will have an overall negative impact on our community. The famed Card-Kreueger case study has been debunked more than once. Minimum wage laws harm minorities, students, disabled workers, ex-felons, recovering addicts, new immigrants and young adults with kids. It would be too costly to hire an entry level worker and train him or her. Any business owner who can afford to stay in business will look to pay employees cash or only hire skilled labor to handle more than one job function. In my business, I would eliminate cashiers and hire stock clerks to cover the cash register. I cannot afford self-checkouts like Ralph's or Vons, so I will need to be creative.

This minimum wage increase will be ineffective if there are no jobs and no on-the-job training. The affordable housing issue will get significantly worse if there is no income to cover rent. California currently ranks 50th for business and 49th in business friendliness. Why make it harder for owners to create jobs? California has lost Tesla, Occidental Petroleum, Comcast, Waste Connections, Campbell's Soup, Toyota, Wells Fargo, Chevron, Charles Schwab and Hyundai Capital. American Apparel has 12,000 jobs and they too may leave with this plan. Small businesses are imbedded in the local community. We cannot relocate our employees, pack up and leave; so we are left to carry the weight. This law deters business owners from wanting to come to Los Angeles and deters current residents of wanting to start a business of their own.

Large companies have the funds to hire professionals to help defer profits with creative accounting practices, invest in machines to eliminate jobs, lobby for preferential treatment, send jobs out of the country and protect themselves from frivolous lawsuits. Small businesses work with much smaller margins because we do not purchase in large enough volumes and must price goods competitively to compete with the larger companies. We do not reach out to large staffing companies and work hard to develop employees to create a competitive edge.

Personally, I wish to carry on our family store and believe so strongly in our small business that I left my job as a successful CPA and took a \$90K pay *decrease* to keep my store operating. It feels like I now am being punished out

for taking a gamble and trying to grow my family business. My intention was to provide my kids with the same quality of life I received, continue our family legacy and enjoy my shot at the American dream. Instead, we are being forced out of business because we cannot afford these wages. My family and I run an honest business, hire from the local community, take chances on at-risk or unskilled workers and try hard to mold them into good employees. I treat my employees with respect and try hard to provide them with a positive work environment. We close early on Sundays, close on Christmas, close on New Year's Day and offer housing opportunities to managers.

This is all very frustrating because small business owners seem to always be perceived as wealthy, greedy individuals with cash to burn and with very little concern for his or her employees. The stereotype is offensive and 100% false. We are in construction now. It has taken us over 4 years to add 5,000 square feet to our store and we are still not done! We are building everything "by right" and have asked for no variances. Still, we are asked to jump through countless hoops and have suffered large delays by various government agencies. Again, what is the point in trying to grow and create jobs in Los Angeles when business owners have very little support to succeed? During construction, sales have been so bad that my Father and I stopped cashing our checks. At times, we fund payroll out of our own pockets. We want to help our employees and view them as family, so we make sure they always receive their checks on time. We understand that our employees are the reason we achieved our success. We pride ourselves on taking care of our employees and offering a better work environment than larger companies, but they all need to start somewhere. How am I to know a 22 year old male with a couple kids is mature enough to arrive on time, work hard, not steal, abstain from drugs and treat customers with respect? How am I to give a newly arriving immigrant with no relevant work experience and no references in the United States a job? I am only able to give an employee a chance to succeed because the pay is reasonable. There is not an employer in this country who would ever want to lose a good employee. We will bend over backwards to try and keep them happy, but we need to see how they work first. We need to have room to incentivize employees. Increases are intended to reward hard work, motivate, earn loyalty and demonstrate one's commitment to an employee's growth.

We can no longer reward based on merit. We will only reward when the City requires us to, which is a very bad precedent to begin. We cannot operate this way. Wiping out small businesses reduces competition, raises prices and hurts the local economy. What is so bad about entry level work to develop a set of skills? Entry level work is a common way to 1) climb the corporate ladder or 2) get enough on the job training to start your own business or go to a larger company. These jobs are all stepping stones. Virtually every successful person started as low paid employees or interns. Their goal was to learn enough to COMMAND a higher pay. They may never have been given a chance if they were required to be paid a certain salary. It seems perfectly logical to start at the bottom and work your way up. Why does a butcher command \$17 to \$20 per hour and a bagger or janitor get the minimum? The answer is obvious. The butcher commands that pay because of his knowledge and experience. The bagger is an entry level job intended to provide training for better paying jobs within the store. A young high school or college student is not looking to raise a family on a bagger's pay. He is looking to have spending money or get promoted as quickly as possible.

Instead of overburdening the small business owners with unsustainable expenses; help us grow, hire and train employees. This law is well intended, but counterintuitive and will do very little to create jobs or help the City. Los Angeles' high cost of living can be attributable to:

- Limited low income housing options.
- Slow or limited public transit, which forces the employee to live near his or her job.
- A very large untrained, uneducated, unskilled immigrant population that results in too many employees seeking too few jobs.
- Fewer dollars being spent in Los Angeles as most immigrant workers support families in the US *and* their native country.

WORKERS COMPENSATION CASE STUDY

Support small businesses, so we can become the next major success story based right here in Los Angeles. I strongly urge you to explore other options that will help us create jobs. One major issue that needs fixing is workers compensation fraud. Small business owners remain sitting ducks for fraudulent workers comp claims.

Take my store as a case study:

- We are too small to have a human resources or legal department. From 1995 to 2010 our store had one workers comp claim that was later rescinded. In 2010, we discovered an employee was stealing. We fired him and his accomplices. We received an order of restitution for \$100,000, which was to be paid in \$30 monthly installments. The guy almost bankrupted our store and his punishment was only \$30 per month in restitution! We have not received a single check in over 3 years. I have called countless agencies to determine his whereabouts, but cannot get anyone to help. The more sickening action is that one of his accomplices filed a fraudulent workers comp claim **after** he was fired for theft (filing a claim after being fired is illegal because it demonstrates retaliation against an owner). I employed him for over 5 years and even rented him and his disabled friend (who had two small children) an apartment. He hired an attorney who was disbarred for 6 months for filing fraudulent cases. I had overwhelming evidence against the employee, but the attorney dragged the case along for over a year to rack up medical and legal bills. I was able to convince an LAPD detective to attend the hearing. She spoke on our behalf and got the case thrown out.
- Later that month, an accomplice of his also filed a fraudulent workers comp claim. We employed her for nearly 8 years. Once the robbery was discovered; she stopped coming to work. She claimed she had fallen two months prior, but there was no evidence to support her. We sent her to 2 independent doctors who all claimed she was fine. The woman filed the claim. My mod went from 81 to 175! We went from paying \$14K to paying nearly \$40K! It took me 2 years to fight and lower my mod. I was able to drop it to 116.
- Three months ago, I get word that a cashier who had been with us for 7 years moved to Palmdale. She was driving nearly 90 minutes to come to work. One day she told another cashier that she was hit by a car while riding her bike. She was unhappy with the settlement and was looking for other ways to get paid. A week later, she stopped coming to work due to "stress" and filed a worker's comp claim. The chiropractor treating her; claims she is disabled for life and will need electro-magnetic therapy to handle her stress!!

The state does very little to deter these claims. The employee is always seen as the victim and the employer as the aggressor. Unfortunately, the state allows employees to claim there was a "cumulative effect" trauma, so they are able to ask for damages dating back to their original start date.

POSSIBLE SOLUTIONS

There are solutions to some very real problems that do not place the burden squarely on small business owners. These methods would eliminate the need for the minimum wage hike and should help spark job growth in our communities.

1. Exempt small businesses. I would define a small business as making less than \$10M per year or having fewer than 100 full time employees.
2. Eliminate the payroll tax and/or local taxes for any employee making less than \$15, so his/her take home pay will be equivalent to someone making \$15 per hour. This simple move allows employees to have a larger pay check and does not affect business owners.
3. Make the wage increase apply to employees who work more than 30 hours per week. It may seem obvious that employers will only give an employee less than 30 hours to avoid the pay increase, but any successful employer will always pay for talent. He will not cut corners and risk losing a good employee over pay.
4. Extend the wage increase over 8 to 10 years provided the Company shows a profit and/or the state does not enter into another recession.
5. Allow employers to be exempted by the law if they put employees on salary and pay an annual bonus.
6. Provide small business owners with lower City permits fees (i.e., franchise board, operating permit, health department permit, weights and measures, etc) or utility fees. Another option here could be to give a small business owner a dollar-for-dollar "below the line" credit to help offset the added payroll.
7. The Mayor has tried to link low wages with housing shortages. Housing is a function of supply and demand. Paying an employee more will result in higher rental rates because developers know the

employee can now afford the increase. It would appear a better tactic would be to help developers wishing to build apartment units move quicker through the plan check process. It has taken us 4 years to expand our store (we are still not done) and 3 years to get through the plan check process for our small 4 unit apartment building. My Father wishes to convert another building into 4 more units for our employees, but does not want to spend another 3 years trying to deal with all the delays. Why not put the developers trying to build housing or expand their businesses to the front of the line and provide liaisons to help get them through the planning phase in a matter of months. Allowing us to build quicker will create jobs, increase property taxes, increase commerce and help beautify the City.

8. Address the workers comp debacle. A great solution would be to require all employees to sign a "waiver" each two weeks indicating whether or not they have been injured, are suffering from stress or require any medical attention. Make it mandatory that each employee seek immediate medical attention (at the employer's expense) if they are experiencing work related issues. The form should be admissible in court and will help to eliminate the "cumulative effect" trauma claim, which will substantially reduce workers comp claims/costs. Below is a sample "waiver":

By signing this form, I agree that I am free of any injury (either physical, psychological or stress related) caused while working at ABC Company. Additionally, I understand that it is my sole responsibility to notify management immediately of injury (either physical, psychological or stress related). Management has offered to provide full medical attention to address any injuries as long as I inform them in a timely manner. Further, I agree that management has done everything in their power to provide an injury-free workplace (e.g., maintain dry floors, not allow any employees to lift more than 15 lbs without help, etc). I agree that it is my responsibility to notify management immediately if I deem my workplace to be dangerous. Finally, I understand that not signing this form implies that I am currently injured and will not be allowed to work until I am medically cleared. Management has clearly explained to me the contents of this form.

9. Create a small business fraud unit made up of retired investigators and retired police workers to investigate claims of fraudulent workers comp claims. If evidence is found the employee is lying, prosecute each employee and also pursue action against both the doctor and law firm.
10. Establish a worker's comp whistleblower hotline where any person can call anomalously and report fraudulent behavior.
11. Create a subscription based website that lists names, descriptions, photos, etc. of any employee convicted of filing a fraudulent worker's comp claim or any employee filing multiple worker's comp claims. Some business owners hire undocumented workers with fake aliases. It is very hard to run background checks or verify a reference if this is their first job in the US. This website would be seen as an insurance policy for any employer. Before hiring an employee, we could search the website to see if he/she has any convictions or multiple filings. Helping us to not hire fraudulent workers will go a long way in assisting business owners in lowering their worker's comp bills.

I strongly urge you to look at alternatives and not force small businesses to close their doors. There are solutions to these problems that help the employee, City and the business owners. Please consider opposing this increase. Instead, support small businesses and you will see a larger and more vibrant California economy.

Thank you for your time and I apologize for the long winded email. I am just a concerned Angelino who does not want to see his business taken away and City decimated.

Sincerely,

Felipe A Corrado IV