



CITY HALL
LOS ANGELES, CALIFORNIA 90012

December 30, 2014

Council President Herb J. Wesson, Jr.
Councilmember Curren D. Price, Jr.
Chair, Economic Development Committee
Sharon Tso, Chief Legislative Analyst
Miguel Santana, Chief Administrative Officer
City of Los Angeles
200 N Spring Street
Los Angeles, California 90012

RE: CF 14-1371-S2 - QUESTIONS FOR CITYWIDE MINIMUM WAGE INCREASE STUDY

Dear President Wesson, Chairman Price, Ms. Tso and Mr. Santana:

The discussion about raising the minimum wage is long overdue and many local governments have acted to lead the way on setting policies meant to help improve the lives of workers. While the definition of an appropriate or fair rate of compensation will differ across state and municipal lines, we agree that a worker who works 40 hours a week should not be living in poverty. Here in Los Angeles, a large percentage of workers earn wages that do not even meet federal poverty standards, let alone allow them to live a decent life given the high cost of living. Crafting a policy that will improve the quality of life of Angelenos is important, and it should be done thoughtfully with full analysis and consideration of all the potential impacts of an increased minimum wage.

We have met with representatives from the non-profit and small business communities since the recent Economic Development committee meeting and heard their concerns. In response, we ask that the analyst to be employed by the City conduct a thorough analysis of the minimum wage, taking into consideration the following issues, among others:

- Previous studies and actual economic data from other jurisdictions that have acted to increase their minimum wage;
- Actual economic data and the real-world experience of business owners and operators in Los Angeles;

- Interviews with local business owners, non-profit operators and workers as to the likely outcomes of a minimum wage increase, both good and bad; and
- A measure, to the highest degree of accuracy possible, of employment patterns, and the likely impacts of an increased minimum wage on overall employment levels and total compensation in Los Angeles.

Below, we have outlined a set of questions and concerns that we believe should be examined and addressed in the study that will be fully reported and considered in the Economic Development committee and in the full City Council, thereafter.

Data on Employment and Wages in Los Angeles

1. The California Employment Development Department currently gathers information by Census tracts to gauge changes in employment and wages based on the various sectors of the economy. This data should be used as a reference to measure the impact of a higher minimum wage on those sectors (e.g., retail, manufacturing, restaurant, non-profit, etc.).
2. We believe that if EDD data indicates that the local minimum wage results in job loss or the departure of certain industries from the City, there should be a mechanism to slow or halt scheduled minimum wage increases to prevent job loss and allow employers to absorb increased costs. One such mechanism would be to require a Council vote in such circumstances. We believe that the economic study should evaluate the positive and negative impacts of such a requirement for minimum wage employers and the economy.

Impacts on Non-Profit Organizations

1. Certain non-profits are less able to absorb higher wage costs and may need more time to phase-in increases to the minimum wage. Because the non-profit sector is diverse and essential to local social services, arts programs, education, and job training, it is important to recognize that some non-profit organizations may benefit from a slower schedule of increases. Would a delayed phase-in for certain non-profit organizations be advisable to allow more time for grants to be sought or for affected non-profits to raise funds to cover their costs, and what would be the ideal phase-in schedule? What is the best way to define this non-profit sector? What would be the impact of limiting such a phase-in to certain non-profits, specifically, what would be the economic pros and cons of limiting it to non-profits where the top-paid employee or CEO makes less than 10 times the minimum wage?
2. A key goal of a higher minimum wage is to reduce wage disparity and to reward employees who generate wealth for companies and their owners or shareholders. In the non-profit sector, the mission is quite different and generating income is not a typical responsibility for minimum wage workers. Some large nonprofits have highly compensated top executives and operate in a way that could allow economies

of scale to help manage a higher minimum wage. Some small nonprofits, particularly those that provide child care or serve the developmentally disabled, pay top executives far less and are limited by the reimbursement rate for state or federal programs. The City of Los Angeles has considered a wage disparity in the application of its living wage ordinance for contractors. Would an exemption or phase-in schedule that allows non-profits that have top executives earning less than 10 times the minimum wage to be exempt from the implementation or schedule effectively allow non-profits to more gradually absorb the higher wage costs?

Impacts on Transitional Worker Programs

1. Some people are employed by non-profits as a means to transition into the workforce. Programs such as Chrysalis, the LA Conservation Corps, and Homeboy Industries employ individuals who are or have been homeless, members of gangs, members of at-risk populations, or otherwise face challenges to mainstream employment. Should these non-profits be allowed to pay slightly less as long as they can document that they are investing in training, support services and other assistance to transition the worker to regular employment?
2. Should such an exemption for transitional workers be allowed within a set time limit of two years, after which time the individual would have successfully completed the program or be eligible for and prepared for a minimum wage job? What would be the economic impact of such an exemption?

Impacts on Small Businesses

1. How should a small business be defined (e.g., number of employees, gross receipts, net receipts or another methodology)?
2. What is the average amount of debt carried by small business owners by economic sector (e.g., retail, restaurant, apparel, manufacturing, etc.)?
3. What other expenses must a small business owner consider in addition to wages for operations (e.g., workers compensation, unsecured property taxes, insurance, etc.), and how will those expenses be impacted by changes in the minimum wage?
4. What are the positive and negative impacts of allowing health and other fringe benefits paid to or on behalf of employees to count toward wage requirements for small business employees?
5. Do small businesses hire locally in Los Angeles? If so, do the workers spend locally in Los Angeles? Does the multiplier effect of wage increases differ based on the size of the employer?

6. What would be the impact of allowing businesses with a wage disparity between their executives and the lowest paid employees of less than 10 times the minimum wage to have a phase-in time to adjust?

Minimum Wage Calculation and Indexing

1. What are other formulas used by cities to calculate a fair minimum wage (e.g., total taxable compensation, average median hourly wage, etc.)?
2. Is the Consumer Price Index (CPI) the best escalation tool to index future growth in the minimum wage for Los Angeles? Which of the CPI indexes is the most appropriate to use (e.g., CPI-U versus CPI-W)? If not, what are other options? What are other cities using or proposing?
3. Are other municipalities implementing any "stop" provisions before any automatic pay increases during economic down times? Should the minimum wage decrease if there is negative growth in the index rate?
4. With the lowest wage worker receiving \$13.25, \$15.25 or some other number, is there evidence that this would create pressure to increase, and cause increases for, the wages of other employees?

Consumer Elasticity

1. In all sectors of the economy, there are a range of prices in which the average consumer is willing to spend on goods and services, and businesses track that range to appropriately price their products to maximize profits. For businesses that employ minimum wage workers, how much more are consumers of their goods willing to pay to sustain a potential minimum wage increase? To what degree, if any, would be the negative effect of price increases offset by increased purchasing power of employees in the City due to wage increases? How much of this potentially offsetting benefit would "leak" to other jurisdictions because employees of Los Angeles businesses live or make purchases outside Los Angeles?
2. What have been the patterns of consumer spending in other jurisdictions that have raised the minimum wage? Were consumers in those jurisdictions willing to pay more for goods to sustain the higher wages?
3. Has more investment, spending and/or tax revenues gone outside those jurisdictions to neighboring cities?

Monitoring & Enforcement

1. The City does not have an existing department to monitor and enforce minimum wage requirements. What are the budgetary impacts of creating this entity and how quickly could it be assembled?
2. What have other cities done to enforce their minimum wage laws?

We all look forward to examining the findings of the study. We also welcome opportunities for ongoing discussions with our colleagues on the City Council, and the public, so that we can create a responsible and economically sound policy that will ultimately help workers, while maintaining a collaborative partnership with the employers in our great City.

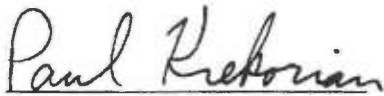
Sincerely,



BOB BLUMENFIELD
Councilmember, Third District



FELIPE FUENTES
Councilmember, Seventh District



PAUL KERKORIAN
Councilmember, Second District



MITCH O'FARRELL
Councilmember, Thirteenth District