
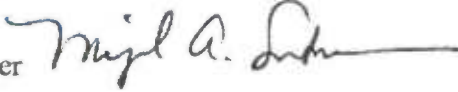


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: May 12, 2015

TO: Honorable Members of the City Council

FROM: Sharon M. Tso
Chief Legislative Analyst 

Miguel A. Santana
City Administrative Officer 

**POLICY ELEMENTS
FOR A CITYWIDE MINIMUM WAGE**

SUMMARY

At its meeting of October 28, 2014, the Economic Development Committee (Committee) considered a Motion (Bonin-Buscaino-Martinez-Price-Koretz-Krekorian, CF# 14-1371, Attachment A) which would impose a living wage of \$13.25 for all employees working in the City by July 1, 2017. Motion further sought a study of impacts associated with increasing the minimum wage to \$15.25 by 2019.

The Committee also considered a Motion (O'Farrell-Blumenfield-Krekorian-Martinez-Fuentes, CF #14-1371-S2, Attachment B) that instructed the City Administrative Officer and Chief Legislative Analyst to commission a study of minimum wage policies and issues to inform the Council's deliberations, including analysis of impacts on small businesses and non-profits.

Following public testimony and discussion, the Committee instructed the CAO and CLA to commission a study of the policy issues associated with the minimum wage proposals included in both Motions, as well as other issues identified by the Committee and included on the public record.

In response to Committee instructions, the CAO and CLA conducted a competitive bidding process to retain a consultant to prepare the required study. The process resulted in the selection of the Institute for Research on Labor and Employment (IRLE) at the University of California, Berkeley.

In January 2015, the Chairman of the Economic Development Committee released a letter requesting that other organizations submit studies related to the proposed minimum wage policy. The intent was to receive additional input on the issue and ensure that the City Council had as much information and perspective as possible to inform the policy consideration. As a result of this process, the City received the following three reports:

- IRLE submitted “The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options;”
- Beacon Economics submitted “Cost-Benefit Analysis: Los Angeles Minimum Wage Proposal;” and
- The Economic Roundtable submitted “Los Angeles Rising: A City That Works for Everyone.”

The Chairman of the Economic Development Committee also directed the CLA and CAO to commission a peer review of all studies submitted for Council consideration. The team of Drs. Till von Wachter and Jeffrey Wenger, economists with UCLA and the University of Georgia, was selected to complete this report. Their report titled “Technical Review of Studies Related to the Citywide Minimum Wage Proposal in the City of Los Angeles” was considered by the Committee on May 5, 2015.

In addition to the Committee instructions, letters were submitted to the public record by several Councilmembers. These include:

- October 28, 2014 O’Farrell
- October 28, 2014 Bonin
- December 30, 2014 Blumenfield-Fuentes-Krekorian-O’Farrell
- March 1, 2015 Blumenfield
- March 24, 2015 Bonin
- March 24, 2015 Blumenfield-Fuentes-O’Farrell
- April 30, 2015 O’Farrell-Blumenfield

Finally, the Economic Development Committee held public hearings throughout the City to receive testimony concerning the minimum wage proposals and the studies conducted by IRLE, Beacon Economics, Economic Roundtable, and Drs. von Wachter and Wenger. The public provided extensive testimony at those hearings. Additional testimony and comments were provided in writing.

At the meeting of May 5, 2015, the Committee requested that the CLA provide an overview report that describes the range of options associated with a minimum wage policy. This document provides an outline of the major decision points with regard to the structure of a minimum wage ordinance, should the Committee choose to move forward with such a policy.

RECOMMENDATION

That the City Council, if it chooses to establish a Citywide minimum wage:

1. Request the City Attorney prepare and present an ordinance to establish a Citywide minimum wage;

2. Instruct the CAO to work with the appropriate department(s) to determine the staffing level needed to implement a Citywide minimum wage law.

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A. CITY APPROACH TOWARD MINIMUM WAGE

The City has several minimum wage policy options. The City could continue to rely on State and federal lawmakers to set and adjust the minimum wage. The State Legislature is currently considering SB 3 (Leno) which would increase the California minimum wage to \$13.00 by 2017. A similar bill was considered by the legislature in the last session, but it failed to pass the Assembly. The City could adopt a position relative to State and federal minimum wage laws and actively pursue adoption of such legislation.

The City could also adopt a local minimum wage that would be effective only if the State fails to increase the minimum wage. The City adopted a similar strategy with regard to a ban on plastic shopping bags. In this approach, a local minimum wage ordinance would be effective at a given date, unless the State adopts a minimum wage increase that satisfies certain conditions.

Finally, the City could adopt a local minimum wage that is independent of the rates adopted by the State and federal governments.

ACTION	
A.1	Which policy position shall the City pursue concerning the minimum wage?
--	No change. Rely on State and federal legislators to establish the minimum wage.
--	No change, but pursue State and federal legislation to increase the minimum wage.
--	Adopt a City minimum wage that is effective by a date certain unless the State implements a minimum wage increase that meets certain criteria (target rate within a certain time frame).
--	Implement a City minimum wage.

If the Council chooses to implement a City minimum wage policy, several elements would be essential to the policy's structure. The following sections address the policy components and major decision points of a minimum wage policy.

B. TARGET WAGE SCHEDULE

First, the policy will need to determine a wage schedule showing the target rate and the time frame in which that rate would be achieved. The combination of these two factors can generate a nearly infinite number of implementation schedules. Table 1 provides several examples, including the following rate schedules:

- known schedule for State annual adjustments (column 1);
- SB 3 (Leno) which would increase the State minimum wage to \$13.00 (column 2);
- Mayor Garcetti proposal (column 3);
- Motion (Bonin-Buscaino-Martinez-Price-Koretz-Krekorian) proposal (column 4);
- a methodology incorporating an initial increase of \$1.50 (50 cents above the approved State minimum wage increase effective January 1, 2016), with annual adjustments of 50 cents, 75 cents, or \$1 (columns 5, 6, 7 respectively);
- a steady increase of 50 cents, 75 cents, or \$1 after the State minimum wage increase effective January 1, 2016 (columns 8, 9, 10 respectively); and
- Initial three years at a steady increase rate; in fourth year, the steady rate is increased by an additional 25 cents to incorporate an inflation adjustment; followed by CPI (columns 11, 12, 13 respectively).

Many alternative adjustment schedules could be devised in consideration of the intent of the policy, such as the speed to implement a target rate, the intention to allow employers and the economy to absorb the increased rates, and the unadjusted value of the target rate relative to the present value of that rate.

Table 1
Sample Minimum Wage Rate Schedules

	1		2		3		4			5			6		7		8		9		10			11		12		13	
	State		City		Bump plus Steady			Steady					Steady, Modified																
	Known	SB 3	Mayor	Council	\$0.50	\$0.75	\$1.00	\$0.50	\$0.75	\$1	\$0.50	\$0.75	\$1	\$0.50	\$0.75	\$1	\$0.50	\$0.75	\$1										
2015	\$ 9.00	\$ 9.00	\$ 10.25	\$ 10.25	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
2016	\$ 10.00	\$ 11.00	\$ 11.75	\$ 11.75	\$ 10.50	\$ 10.50	\$ 10.50	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
2017	\$ 10.00	\$ 13.00	\$ 13.25	\$ 13.25	\$ 11.00	\$ 11.25	\$ 11.50	\$ 10.50	\$ 10.75	\$ 11.00	\$ 10.50	\$ 10.75	\$ 11.00	\$ 10.50	\$ 10.75	\$ 11.00	\$ 10.50	\$ 10.75	\$ 11.00	\$ 10.50	\$ 10.75	\$ 11.00	\$ 10.50	\$ 10.75	\$ 11.00	\$ 10.50	\$ 10.75	\$ 11.00	\$ 11.00
2018	\$ 10.00	\$ 13.26	\$ 13.52	\$ 14.25	\$ 11.50	\$ 12.00	\$ 12.50	\$ 11.00	\$ 11.50	\$ 12.00	\$ 11.00	\$ 11.50	\$ 12.00	\$ 11.00	\$ 11.50	\$ 12.00	\$ 11.00	\$ 11.50	\$ 12.00	\$ 11.00	\$ 11.50	\$ 12.00	\$ 11.00	\$ 11.50	\$ 12.00	\$ 11.00	\$ 11.50	\$ 12.00	\$ 12.00
2019	\$ 10.00	\$ 13.53	\$ 13.79	\$ 15.25	\$ 12.00	\$ 12.75	\$ 13.50	\$ 11.50	\$ 12.25	\$ 13.00	\$ 11.50	\$ 12.25	\$ 13.00	\$ 11.75	\$ 12.50	\$ 13.25	\$ 11.75	\$ 12.50	\$ 13.25	\$ 11.75	\$ 12.50	\$ 13.25	\$ 11.75	\$ 12.50	\$ 13.25	\$ 11.75	\$ 12.50	\$ 13.25	\$ 13.25
2020	\$ 10.00	\$ 13.80	\$ 14.06	\$ 15.56	\$ 12.50	\$ 13.50	\$ 14.50	\$ 12.00	\$ 13.00	\$ 14.00	\$ 12.00	\$ 13.00	\$ 14.00	\$ 12.50	\$ 13.50	\$ 14.25	\$ 12.50	\$ 13.50	\$ 14.25	\$ 12.50	\$ 13.50	\$ 14.25	\$ 12.50	\$ 13.50	\$ 14.25	\$ 12.50	\$ 13.50	\$ 14.25	\$ 14.25
2021	\$ 10.00	\$ 14.07	\$ 14.34	\$ 15.87	\$ 13.00	\$ 14.25	\$ 15.50	\$ 12.50	\$ 13.75	\$ 15.00	\$ 12.50	\$ 13.75	\$ 15.00	\$ 13.25	\$ 14.50	\$ 15.50	\$ 13.25	\$ 14.50	\$ 15.50	\$ 13.25	\$ 14.50	\$ 15.50	\$ 13.25	\$ 14.50	\$ 15.50	\$ 13.25	\$ 14.50	\$ 15.50	\$ 15.50
2022	\$ 10.00	\$ 14.35	\$ 14.63	\$ 16.18	\$ 13.50	\$ 15.00	\$ 15.81	\$ 13.00	\$ 14.50	\$ 15.30	\$ 13.00	\$ 14.50	\$ 15.30	\$ 14.00	\$ 15.50	\$ 15.81	\$ 14.00	\$ 15.50	\$ 15.81	\$ 14.00	\$ 15.50	\$ 15.81	\$ 14.00	\$ 15.50	\$ 15.81	\$ 14.00	\$ 15.50	\$ 15.81	\$ 15.81
2023	\$ 10.00	\$ 14.64	\$ 14.92	\$ 16.51	\$ 14.00	\$ 15.30	\$ 16.13	\$ 13.50	\$ 15.25	\$ 15.61	\$ 13.50	\$ 15.25	\$ 15.61	\$ 14.75	\$ 15.81	\$ 16.13	\$ 14.75	\$ 15.81	\$ 16.13	\$ 14.75	\$ 15.81	\$ 16.13	\$ 14.75	\$ 15.81	\$ 16.13	\$ 14.75	\$ 15.81	\$ 16.13	\$ 16.13
2024	\$ 10.00	\$ 14.93	\$ 15.22	\$ 16.84	\$ 14.50	\$ 15.61	\$ 16.45	\$ 14.00	\$ 15.56	\$ 15.92	\$ 14.00	\$ 15.56	\$ 15.92	\$ 15.50	\$ 16.13	\$ 16.45	\$ 15.50	\$ 16.13	\$ 16.45	\$ 15.50	\$ 16.13	\$ 16.45	\$ 15.50	\$ 16.13	\$ 16.45	\$ 15.50	\$ 16.13	\$ 16.45	\$ 16.45
2025	\$ 10.00	\$ 15.23	\$ 15.52	\$ 17.17	\$ 15.00	\$ 15.92	\$ 16.78	\$ 14.50	\$ 15.87	\$ 16.24	\$ 14.50	\$ 15.87	\$ 16.24	\$ 15.81	\$ 16.45	\$ 16.78	\$ 15.81	\$ 16.45	\$ 16.78	\$ 15.81	\$ 16.45	\$ 16.78	\$ 15.81	\$ 16.45	\$ 16.78	\$ 15.81	\$ 16.45	\$ 16.78	\$ 16.78

Legend to borders, shades, colors:

- Min-Median estimated at approximately 60% based on IRLE study; data not available for other models.
- Years where the minimum wage would increase automatically by a CPI adjustment, estimated at 2% annual, if CPI is provided.
- Indicates five-year mark
- Col 2-4 Rates set by proposed policy with CPI-W index adjustment
- Col 5-13 Annual adjustment shifts from set increase to CPI index adjustment, once the rate equals or exceeds \$15

Column	
1	Known State minimum wage rates.
2	Minimum wage proposed under SB 3 (Leno).
3	Mayor Garcetti minimum wage proposal.
4	Council proposal of \$13.25, with an additional increase to \$15.25.
5,6,7,	Provides a .50 cent increase on top of the State \$1 increase in 2016, then a steady increase each year thereafter. The justification is that the State will already increase the rate by \$1 January 1, 2016 and an additional marginal increase would extend impact of policy.
8,9,10	Provides a steady increase each year. This gives the State one year to implement a bill such as SB 3 before the City policy is implemented.
11, 12,	Initial three years at a steady increase rate. In fourth year, the steady rate is increased by an additional 25 cents to incorporate an
13	inflation adjustment, followed by CPI.

Rate Schedule

The first decision would be to select a wage schedule. The following presents the two wage schedules that have been proposed. The Council can also designate a different rate schedule.

IRLE evaluated the proposals presented by the Mayor and Council and did not recommend any rate schedule. The IRLE report indicates that the \$15.25 rate “reaches higher up into the City’s wage distribution than has been attempted to date in the U.S.,” which could result in larger effects than predicted by previous research. The Beacon report suggests that if Council moves ahead with this policy, a slower rate of increase would reduce policy effects on businesses. Economic Roundtable endorsed the \$15.25 rate schedule. Public testimony was also received suggesting implementation of lower rate increases over a longer period of time.

Indexing (i.e., CPI adjustments) is addressed in Section C.

ACTION	
<p>B.1 Adopt proposal of \$13.25 per hour by 2017.</p> <p style="padding-left: 40px;">2015 \$1.25 increase</p> <p style="padding-left: 40px;">2016 \$1.50 increase</p> <p style="padding-left: 40px;">2017 \$1.50 increase</p>	
<p>or Adopt proposal to reach \$13.25 per hour by 2017, then \$15.25 by 2019.</p> <p style="padding-left: 40px;">2015 \$1.25 increase</p> <p style="padding-left: 40px;">2016 \$1.50 increase</p> <p style="padding-left: 40px;">2017 \$1.50 increase</p> <p style="padding-left: 40px;">2018 \$1.00 increase</p> <p style="padding-left: 40px;">2019 \$1.00 increase</p>	
<p>or Adopt another wage schedule. See Table 1 for sample rate schedules.</p>	<p>2015 \$ _____</p> <p>2016 \$ _____</p> <p>2017 \$ _____</p> <p>2018 \$ _____</p> <p>2019 \$ _____</p> <p>2020 \$ _____</p> <p>2021 \$ _____</p>

Required Elements

The ordinance should designate the effective date of the rate change, as well as the department, bureau, or office that will provide annual notice to employers of the wage rate for the coming year. Proper and timely notice of wage changes will be required so that employers will know the wages they will be required to pay and when they will need to provide those wages. A single City entity should be responsible for that information and ensure that relevant information is publicized widely.

The Bureau of Contract Administration is the Designated Administrative Agency identified in the hotel minimum wage ordinance. In addition, the Economic Development Committee recently proposed the creation of an Office of Labor Standards in the Bureau of Contract Administration to enforce wage theft.

ACTION	
B.2	Month and Day that wage adjustments would be effective -- January 1 -- April 1 -- July 1 -- October 1

ACTION	
B.3	Adjustment notice posted number of months prior to effective date -- 3 months -- 4 months -- 6 months

ACTION	
B.4	Department, Bureau, or Office that will determine and post wage rate notices -- Office of Finance -- Bureau of Contract Administration -- Office of Labor Standards (if created) -- City Clerk

C. INDEXING

Motion (Bonin-Buscaino-Martinez-Price-Koretz-Krekorian) proposes that, following an initial period where wage rates are increased at \$1 per year or more for the first several years, wages will then be increased annually based on an index. These proposals suggest that the annual CPI-W for Los Angeles-Riverside-Orange counties stand as the index for the annual rate of increase. The CPI-W for the Los Angeles area since 2000 is shown in Table 2.

2000	3.3	2008	3.9
2001	3.3	2009	-1.2
2002	2.8	2010	1.5
2003	3.0	2011	3.0
2004	3.5	2012	2.0
2005	4.4	2013	1.1
2006	4.2	2014	1.3
2007	3.3		
Source: U.S. Bureau of Labor Statistics			

IRLE reports that 15 of 30 state minimum wage laws and 14 of 19 local minimum wage laws include indexing. In states that do not use indexing, minimum wage increases are irregular and much larger than inflation rates. IRLE reported on one study that shows no difference on the economy in states that index their minimum wages compared to states that do not.

Economic Roundtable recommends indexing wages based on changes in the CPI-W. Beacon recommends that no automatic index be incorporated into the policy. Rather, they recommend that additional increases be approved based on evaluation of the policy's impacts.

ACTION	
C.1	<p>Implement an automatic annual index adjustment once the target salary rate has been achieved?</p> <p>-- Yes, implement an automatic annual index adjustment</p> <p>-- No, do not implement an automatic annual index adjustment</p>

Index Adjustment Timing

Discussions have included the concept of an alternative rate schedule for specified firm types, including small businesses and non-profits. An argument for the alternative rate schedule is that certain business types require additional time to adjust to the higher wage rates. By providing a longer period of time to reach the higher wage rates, the designated businesses might be better able to accommodate those rates. These businesses are discussed later in this report.

Implementation timing of an automatic annual index adjustment, however, creates a moving target for the alignment of the primary wage schedule and the alternative rate schedule. Implementation of an automatic adjustment would require that the alternative wage schedule include higher annual adjustments for several years and create a longer time-frame for the alignment of the two rate schedules.

Consideration of the timing for implementation of the automatic annual index adjustment, then, becomes critical to the development of this policy.

- Should the two rate schedule match at some future point?
- If they should match, how is that match achieved:
 - Should the alternative wage schedule continue to climb at larger increments in later years until the two rates match, or
 - Should the automatic annual index adjustment become effective only when the two rate schedules have matched?

ACTION	
C.2	<p>Should implementation of the automatic annual index adjustment be delayed until the alternative rate schedules match the primary rate schedule?</p> <ul style="list-style-type: none">-- Delay indexing until the alternative rate schedules match the primary rate schedule-- No, do not delay indexing until the alternative rate schedules match the primary rate schedule.

Floor

Motions and questions by the Committee requested consideration of a “floor” on the amount of a minimum wage change if the wage is indexed. As Table 2 shows, the Los Angeles region has experienced a negative value in the CPI-W. A strict index on the minimum wage rate would require that the rate be reduced in that situation. If a floor is established, then the minimum wage rate would not drop below the designated threshold.

Economic Roundtable recommends adopting a floor of 0%. IRLE discusses the concept of a floor but does not make a recommendation. Beacon does not address the concept of a floor.

ACTION	
C.3	Floor on automatic adjustments?
--	Yes, establish a floor on automatic adjustments
--	No, do not establish a floor on automatic adjustments

ACTION	
C.4	If a floor is established, what is the amount of the floor?
--	-1%
--	0%
--	1%

Ceiling

It should be noted that the ceiling rate should be set with some care. If the ceiling rate is too high, automatic adjustments could go into effect in years when the economy is in recession. A lower ceiling ensures that automatic adjustments maintain some measure of moderation. On the other hand, a ceiling that is too low could be a problem when combined with a bank (discussed in the next section). Un-used adjustment could significantly accumulate in the bank and result in an obligation to increase wages during a recession.

Economic Roundtable recommends a ceiling of 4%. IRLE discusses the concept of a ceiling but does not make a recommendation. Beacon does not address the concept of a ceiling.

ACTION	
C.5	Ceiling on automatic adjustments?
--	Yes, establish a ceiling on automatic adjustments
--	No, do not establish a ceiling on automatic adjustments

ACTION	
C.6	<p>If a ceiling is established, what is the amount of the ceiling?</p> <p>-- 2%</p> <p>-- 3%</p> <p>-- 4%</p>

Bank

IRLE introduced the concept of a “bank,” to capture any CPI-W adjustments below the floor and above the ceiling for use at a later time. This could be used over time to moderate any large increases or decreases in CPI-W. Beacon and Economic Roundtable do not discuss the concept of a bank.

ACTION	
C.7	<p>“Bank” any CPI changes below or above the floor or ceiling?</p> <p>-- Yes, Bank any CPI changes below the Floor or above the Ceiling</p> <p>-- No, do not bank any CPI changes below the Floor or above the Ceiling</p>

Required Elements

Any notices relative to the index adjustment, adjustments relative to a floor or a ceiling, and determinations relative to banked adjustments should be managed by the same department, bureau, or office that is responsible for implementation of the minimum wage schedule.

ACTION	
C.8	<p>Assign duties relative to the index adjustment, adjustment floor, adjustment ceiling, and adjustment bank to the same department, bureau, or office that is responsible for implementation and notice of the minimum wage rate schedule?</p>