Considering Minimum Wage Policy in the City of Long Beach: Theory, Practice and Potential Implications

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INSTITUTE FOR APPLIED ECONOMICS
LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

CONSIDERING MINIMUM WAGE POLICY IN THE CITY OF LONG BEACH:

THEORY, PRACTICE AND POTENTIAL IMPLICATIONS

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This report was commissioned by the City of Long Beach.

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EXECUTIVE SUMMARY

The Long Beach City Council, representing the second largest city in Los Angeles by population, is considering adopting a local minimum wage policy and has asked the Los Angeles County Economic Development Corporation (LAEDC) to study the issue.

The LAEDC's approach included: (1) a review of contemporary minimum wage literature, and a scan of best practices of municipalities implementing similar policies at the local level; (2) an estimate of the potential impact in Long Beach of a policy similar to that adopted by the City of Los Angeles, including a discussion of regional dynamics; (3) a synthesis of comments made at the several open forums held across the city to hear the concerns of constituents; and (4) a survey of Long Beach businesses measuring their anticipated response to a potential minimum wage increase.

The findings are summarized as follows:

- Many jurisdictions across the nation are currently implementing or considering local minimum wage ordinances that raise the hourly rate above state and federal mandated levels:
  - The design of these ordinances differ in terms of the exemptions, phase-in periods and waivers;
  - Enforcement strategies are universally reactive to employee complaints.

- Within the City of Long Beach:
  - Approximately 70 percent of the residential population is of working age;
  - The median household income in Long Beach was $54,511 in 2014, with 47 percent of households earning less than $50,000 per year and 12.2 percent earning over $150,000 per year
  - Approximately 26 percent of the working residents of Long Beach hold jobs in the City of Long Beach—others commute to jobs elsewhere;
  - Of all payroll jobs in the City of Long Beach, only 23 percent are held by residents of Long Beach.

- If a policy similar to that adopted by the City of Los Angeles were implemented in Long Beach, many workers in Long Beach will be impacted:
  - Unambiguously, employed workers who are currently earning less than the proposed minimum wage (at each step) and who retain their positions will receive a higher hourly rate for their work;
  - However, as with any regulatory change, a minimum wage policy will induce responses from all economic actors in the region—including motivating changes in employee and worker behavior that may have secondary effects, such as:
    - ✧ Working more productively to "earn" the higher wage
    - ✧ Inducing non-working residents to join the labor market
    - ✧ Allowing existing or new employees to accept wages below the new minimum in exchange for informal employment when formal employment is not available;

- In the "best case" scenario, approximately 33,000 workers would be affected by 2017 if the minimum wage were $12.00 per hour, receiving an increase in annual earnings on average of $940 (over current earnings), and approximately 45,700 workers would be affected as the minimum wage reaches $15.00 per hour in 2020, receiving an increase in annual earnings on average of $5,160 (over current earnings);
- In the "worst case" scenario, up to 14,000 workers would be most at risk of being negatively impacted through reduced hours, job loss or substitution by 2017; this number would grow to 20,700 by 2020.

- Firms that currently employ minimum wage workers and who will be impacted by future increases will likely respond to their increased labor costs using one or more of the following strategies:
  - Increasing prices, as 93 percent of all business with minimum wage workers responding to our survey state is likely;
  - Absorbing cost increases through reduced profits, as 90 percent of employers with minimum wage workers responding to our survey say is likely;
  - Substituting the lowest-skilled workers with employees that are more productive, as 70 percent of employers of minimum wage workers responding to the survey say they will expect their employees to take on additional duties;
  - Reducing employment by eliminating jobs, as ten percent of employers with minimum wage workers responding to our survey believe is likely, or by cutting hours of existing employees, as three percent of such employers believe is likely;
  - Reducing or delaying future employment by not replacing voluntarily separated workers;
  - Smaller firms have the fewest options for managing cost increases and impacts will be more pronounced.

- Over the long term, the relative costs of capital and labor may encourage more automation. At the time the LAEDC survey was fielded, 29 percent of employers of minimum wage workers were undecided about the likelihood of substituting capital for labor. However, this is a trend that has been underway for most of the twentieth century and will continue into the twenty-first as well.
  - If this were to occur, transitioning displaced workers into other occupations may be challenging if such workers face skills mismatches;
  - Employment opportunities for those at the bottom of the skills ladder will be diminished, including youth;
  - Business operations will become more efficient as marginal firms close or relocate.

- Given the number of jurisdictions surrounding Long Beach, many of which have not indicated any intention of adopting similar minimum wage policies, regional dynamics will come into play through such influences as:
  - Enlarging the pool of labor available to Long Beach employers, allowing firms to be more selective in their choice of hires and thus able to replace current (or departing) lower-skilled employees with others who have higher levels of skills and productivity;
  - Heightening the competition faced by firms in neighboring cities for the best-performing minimum wage workers as these employees defect to opportunities in Long Beach, likely leading to wage hikes in those cities;

- As more cities in the region adopt similar policies, competition among neighboring cities in both labor markets and goods markets will become less of an issue.

INTRODUCTION

Anemic recovery from the Great Recession, stagnant wages, rising income inequality and the proliferation of low-wage jobs at the expense of traditional career paths to the middle class, have in combination motivated a movement across the nation to consider implementation of minimum wages at municipal levels above the federal rate, particularly in larger urban areas where the cost of living has become increasingly challenging.

The state of California already set its minimum wage above the federal level. Currently the state level policy is $9 per hour, which will increase to $10 per hour in January 2016. Nevertheless, municipalities across the state are considering or moving forward with minimum wage increases above the state level for their own constituents. In Los Angeles County, the City of Los Angeles was the first to adopt a higher minimum wage. The Los Angeles County Board of Supervisors, overseeing the unincorporated areas of the county, voted to follow suit. At time of writing of this report, several other cities have begun deliberations, including Santa Monica, Pasadena and West Hollywood.

The Long Beach City Council, representing the second largest city in Los Angeles County by population, is considering adopting a minimum wage policy as well, and has asked the Los Angeles County Economic Development Corporation (LAEDC) to research, review and discuss the possible implications of such a policy in Long Beach, addressing, specifically, a number of areas, including:

- A review of contemporary research related to minimum wage increase in large metropolitan areas, with specific consideration of how their merits relate to existing conditions in the City of Long Beach;
- A scan of best practices of municipalities having implemented a minimum wage policy in addressing impacts on businesses, including enforcement practices and offsetting incentives or preferences;
- Discussion of the potential regional dynamics as neighboring cities adopt conforming minimum wage policies or not;
- A survey of businesses in Long Beach measuring their anticipated response to a minimum wage increase;
- Summary of comments made by members of the public during open forums held around the City with the specific intention to allow all voices to be heard.

This report is submitted by the LAEDC Institute for Applied Economics in response to the City Council's request. It has been prepared in four parts:

Part 1 addresses the City Council's interest in reviewing current literature on minimum wage policy. This section also includes an outline of comparable policies being adopted across the nation, and any policies or programs related to enforcement and mitigation of potential consequences.

Part 2 looks more closely at the City of Long Beach itself, its economic conditions and the characteristics of its population and the commuting patterns of workers into and out of the city. This section provides an estimate of the potential increase in earnings for workers in Long Beach, and how much of this will accrue to Long Beach residents that work in the city.

Part 3 presents a snapshot of the comments heard at public forums that were held throughout the city, inviting residents and business owners to express their hopes and concerns. At the time of writing, three forums had been held; three additional forums are planned to be held in the weeks following the release of this report to allow public comments on the value and findings of the report. Those comments will be included in a supplemental document that will be forthcoming.

Part 4 presents the results of our independent survey of Long Beach businesses.

A partial list of literature consulted during research for this report is provided in the Appendix, followed by a short description of the methodology used to estimate the potential impacts in Long Beach.

PART 1: MINIMUM WAGE POLICY: THEORY AND PRACTICE

The complex interplay between workers and the firms that hire them, both facing a competitive global marketplace, and each constituency's responses to mandated wages amid other regulations deserves careful examination. The ambiguity of definitive outcomes has provided much fodder for economic analysis, becoming one of the most studied issues of our time. The difficulty of reading and interpreting results and then attributing them specifically and only to particular responses is much challenged. The economic models used in empirical research have changed over time (and differ among geographies) as methods have improved and as new and richer data sources become available. And with new government-led policy experiments arising across the nation and globe, the study of minimum wage policy has only intensified.

We have surveyed much of the current literature on the subject, in particular the research since the early 1990s which is commonly referred to as "new minimum wage research." Additionally, numerous articles published in the popular press and by private entities were included in our scan of the literature. A partial listing of the literature reviewed is given in the Appendix.

What can be said with some certainty is that increasing the minimum wage will increase the hourly wages paid to employees who are affected. What happens next is more uncertain, and depends on the responses of employers, employees and non-working job seekers and how these in turn generate downstream impacts.

In what follows, we summarize the most commonly predicted responses by employees and by employers to minimum wage increases, and how these predicted responses aggregate to an overall impact on the economy. Thereafter, we summarize policies being implemented (or those still under consideration) in other cities across the nation, and outline some strategies that many of these policies have included to try to mitigate some of their potential negative consequences. Finally, enforcement issues are considered.

WHAT THEORY AND ACADEMIC LITERATURE SUGGESTS

EMPLOYEE RESPONSES

Unambiguously, *employed workers* who are currently earning less than the mandated minimum wage (at each step) and who retain their positions will clearly receive a higher hourly rate for their work.

Estimation of the increase in hourly wage rates, the number of affected workers, and so on (if one was to assume that existing employment conditions and composition were to remain fixed and no other adjustments were made in the economy) involves for the most part basic arithmetic calculations. In this report, these are estimated and reported in the following section.

However, as with any regulatory change, this policy will induce responses from all economic actors in the region—including motivating changes in employee and worker behavior that may have secondary effects. These include: working more productively to "earn" the higher wage; inducing non-working residents to join the labor market; and allowing existing or new employees to accept wages below the new minimum in exchange for informal employment when formal employment is not available. To the extent that these responses occur, they may affect the overall effectiveness of the proposed minimum wage policy. These are discussed here.

- **Improving productivity:**

The literature related to the expected response of employees to an increase in the minimum wage is quite extensive as it is related to other widely-studied policies influencing work incentives, such as welfare reform and the Earned Income Tax Credit. The theory of *efficiency wages* offers guidance on how employees might respond to increased wages. This theory holds that the productivity of workers is dependent on their wages, and paying employees a wage higher than the market rate will induce higher levels of productivity (or, equivalently, less shirking). This increase in productivity raises the value of the employee. Alternatively, reducing pay will impact morale and increase turnover and hence increase labor costs. Both shirking and turnover represent costs to employers. While here it is a mandated increase in wages rather than an employer making a conscious decision to pay wages that are higher than market-clearing wages, the expected employee response may well be similar. Workers who are paid more than their market-clearing wage may feel more valued at work, be more productive and be less likely to quit.

- **Increasing job search incentives:**

A second response is related not only to current employees but to others outside the current labor market. The prospect of higher wages may heighten the incentive to work for those individuals that had *not previously been in the labor force* (because of school commitments, childcare, geographic remoteness or other cost-benefit calculations). It may also draw additional labor force participants from outside the region that would be able to offset increased commuting costs with higher pay levels.

- **Increasing incentives to accept wages below the mandated minimum:**

A third (although indirect) response might be seen in currently unemployed workers that are having difficulty finding employment at the new minimum wage, perhaps because their productivity level is less than desired. This may be exacerbated by a growing pool of similarly lower-skilled workers entering the

job search market having been displaced by higher productivity employees. Such workers may be willing to engage in informal labor at wages below the mandated minimum. A variant of this would be an increase in unpaid labor such as interning.

- **Voluntarily reducing labor supply to retain means-tested benefits:**

Eligibility for many government-paid benefits, such as CalWORKs, CalFresh, EITC, ACA subsidies and so on are based on household income. An increase in household income from earnings may edge some individuals beyond their eligibility thresholds. For some, the loss of or reduction in such benefits may not be offset by their increased income, and as such workers may voluntarily reduce their working hours in order to maintain eligibility.

EMPLOYER RESPONSES

Equally as certain, *employers* who currently pay some of their workforce hourly wages below the mandated minimum wage and who continue to employ the same number of workers (and hours) in those positions will face an increase in their payroll costs. In addition to the mandated hourly pay increases, payroll costs such as workers compensation, unemployment insurance, disability insurance and other contingent payroll costs will also increase.

It is also argued that employers are likely to retain an earnings ladder for current workers at pay rates above the minimum, so that workers who are not currently affected will receive an increase, perhaps not proportional to the change in the minimum wage, but enough to maintain a differential from those previously earning lower hourly wages. Pay scale bumps for these additional workers (which are commonly called “spillover” or “ripple” effects) will add to the incremental labor costs facing employers.

Employers and businesses facing increased labor costs will be motivated to respond to minimize the impact (or maximize the benefit) of this change in their cost structure. Potential responses include: reducing employment (either jobs or hours); reducing other payroll-related costs; recouping mandated labor cost increases by reducing wage growth of unaffected employees; replacing affected employees with more productive employees that are better able to “earn” the mandated wage; replacing workers through automation or technological improvements; passing cost increases through to their customers by increasing prices; accepting lower profits and returns to capital; and even relocation or closure. These responses are discussed here.

- **Reducing employment:**

In economic theory, when the price of a good in a competitive market rises, the demand for it falls. It is often assumed that this theory can be fully applied to the labor market, but there are many departures from it as well. The labor market may not be competitive, there may be constraints to reducing demand for labor, and there may be more than a single labor market with highly-substitutable labor. Still, it seems likely that employers would respond to higher labor costs by attempting to cut back on employment. The possible means to reduce labor costs include reducing hours of employment, reducing jobs or delaying hiring and relying on informal labor.

- **Reallocating labor costs across the payroll distribution:**

Employers may otherwise attempt to compensate for the increase in payroll costs at the lower levels of the pay scale by reducing pay (or minimizing pay increases) of higher-paid employees, thus maintaining

a similar overall labor bill. Employers may also choose to reduce benefits that are not mandated (or restrain growth of such benefits).

- **Labor-labor substitution:**

If employers reduce hours of existing employees, the loss of this work would have to be compensated by increased productivity of those employees (or others). Existing employees may simply be expected to work harder to produce the same output in fewer hours. If employees are not able to increase their productivity, they may be replaced by employees that are already more productive. This is especially more likely if, as suggested below, the pool of labor available to employers enlarges due to employee responses.

- **Capital-labor substitution:**

Over time, employers may invest in labor-saving devices or processes in order to replace higher cost labor with capital. This requires investment and a favorable cost-benefit analysis, but it is certainly conceivable that at some minimum wage level capital-labor substitution will occur. The current balance between labor and capital used in production is based on prevailing prices (i.e., wages and interest rates), and changing relative prices will tip the scales in favor of one or the other.

- **Increasing prices:**

If labor cost increases cannot be contained, employers may pass these costs on to their customers through increased prices. The evidence is fairly consistent that firms do pass on at least some of their increased costs to consumers. However, the ability of firms to raise prices depends on how reactive their customers are to price increases (the price elasticity of demand for their goods) and the competitive nature of their marketplace. It may be more difficult for firms to raise prices in competitive markets where not all businesses are similarly constrained, such as, for example, where larger companies have more ability to absorb cost increases, in export markets, or where competition is with firms in non-impacted jurisdictions that are in close proximity. As a second order effect, if a firm is able to raise its prices, demand for its output may fall.

- **Reducing profits:**

Firms that are unable (or unwilling) to contain labor cost increases and unable (or unwilling) to pass cost increases through by increasing prices will necessarily face reductions in operating profits. As profits are typically distributed to owners, reduction in profits will constitute a negative stimulus to the economy, which will offset to some extent the positive stimulus from any increased labor earnings. There is no reason to believe that employers will not maximize profits under the new institutional arrangement using whatever response mechanisms they can deploy, and choosing to tolerate lower returns to capital would be a last-best option.

- **Relocation or closure:**

Employers that cannot adjust their business models or otherwise reallocate costs and that are at the margin of profitability—or find a more attractive alternative in which to invest their capital—will close. Relocation, a response discussed more fully below, is in effect a closure in the local market and a reopening in another market (evidently a more attractive alternative).

AGGREGATE ECONOMIC RESPONSE

As we have discussed above, the responses of employees and employers will impact overall economic conditions—often in opposite directions. For example, workers with higher wages can produce a stimulative effect if the aggregate of all workers have more income to spend. At the same time, if employers cut hours or jobs, then workers will have less income, offsetting the stimulative effect. Employers themselves, having to pay higher labor costs, may reduce their own regional purchases, also dampening any stimulative effect. The net effect on the economy is the result of adding up both sides of the ledger and comparing which side is larger. It is also worthwhile to remember that the overall net effect may hide negative impacts on some classes of workers or businesses, and positive impacts on other classes of workers or businesses.

We summarize how individual responses can be offset by others:

- Employers will face higher costs
  - They may adjust operations and experience cost savings
    - This might reduce employment or labor earnings to those affected
  - They may pass increased costs through to customers by increasing prices — unless:
    - Their current competitive landscape makes this difficult
  - In any event, price increases will dampen any potential stimulative impact on the economy – and:
    - May disproportionately impact low-wage workers if the industries that are able to increase prices are those that are mostly frequented by low-wage workers

- Workers who have been paid minimum wages will be paid higher wages than prior to implementation
  - The increased earnings of these workers may produce a stimulative impact on the economy – unless:
    - Their hours, jobs or non-payroll earnings are cut back such that overall earnings fall
    - They are replaced by other (more productive) workers who had been earning those higher wages already
    - Employers reduce their local spending

- The potential transfer of funds from owners to employees may reduce income inequality (all other things being equal) – unless:
  - The firms most affected are those with local owners whose income and spending patterns are similar to those of their employees

- The increase in earnings may decrease poverty – unless:
  - Workers who experience an increase in wages were not members of families in poverty
  - Those in poverty are not in the labor force or do not work
  - Workers in poverty are replaced (i.e., lose their jobs)
  - Workers in poverty lose access to government benefits which offsets their potential increase in earnings
  - Families in poverty now face higher prices for goods they typically purchase

REGIONAL DYNAMICS

Our motivation to consider regional dynamic responses arises not only from our reading of current literature but from the comments heard at open forums and from responses to our survey questions. Knowing that some responses will occur over a longer horizon is supported by literature showing that longer term responses will be more impactful. Such impacts include, among other results, larger disemployment responses, labor-labor substitution, capital-labor substitution and slower business and employment growth.

In addition to time horizons, knowing that many jobs in the City of Long Beach are held by outside residents makes it necessary to consider the regional economy and how cross border effects of both employees and employers would impact the expected effects within the borders of the City of Long Beach. With only politically-defined lines between them, the many jurisdictions neighboring the city are virtually indistinguishable to workers and firms alike. Firms will be competing across unnoticed borders for workers and customers, and employees will be competing for jobs across imaginary lines.

Here we turn to several responses that cannot be viewed in narrow geographic or time dimensions but need a wider understanding.

- **Labor responses:**

First, given the geographic proximity of many other cities that are not adopting similar wage increases, one can expect that there will be a labor supply response, as discussed above, since higher wages may heighten the incentive to work for those individuals that had not previously been in the labor force (because of school commitments, childcare or geographic remoteness) across the region, adding to the local labor supply and generating competition for higher minimum wage jobs between neighboring jurisdictions.

This will leave lesser candidates competing for jobs in other regions, adding to those labor markets and perhaps further depressing wages elsewhere, and increasing unemployment rates of those cohorts. The least qualified minimum wage workers, such as new labor force entrants, teens, ex-offenders and the lower-skilled, will likely have a more difficult time finding employment at the higher minimum wage level.

- **Employer responses:**

On the flip side of that market, firms in neighboring jurisdictions will likely face defections of their best-performing minimum wage workers and will need to compete in the labor market. While wage differentials are not likely to disappear, wages could rise in bordering cities as a consequence of this competition.

Should firms in neighboring cities raise their minimum wages to compete for better minimum wage labor, they will face similar cost increases to affected employers and will be similarly faced with absorbing cost increases or raising prices (or a combination of both).

It is possible that firms will be constrained from raising prices because of competition from neighboring cities, and in competitive market theory this idea seems supported. It is also possible that firms in neighboring cities will be forced to raise their own prices to recoup their voluntary wage increases. Even if they are not facing increased costs, it is also possible that unaffected employers will match their prices as a free-riding response and gain a profit edge over their higher cost competitors.

Labor-labor substitution:

Still, whatever the net impact, the compositional makeup of minimum wage workers must be addressed. Regional dynamics will enlarge the pool of labor available to employers, allowing employers to be more selective in their employment choice. Given more choice, employers will be more able to replace current (or departing) lower-skilled employees with others who have higher levels of skills or productivity. While employers may well have some loyalty to current employees and these adjustments may not occur immediately, over longer horizons such labor-labor substitutions will become more palatable as employees leave voluntarily.

Hence the assumption that all existing employees will remain in their current positions with their current hours and receive a wage increase without employers seeking to maximize productivity of each of these positions or minimize costs is optimistic. Labor-labor substitution (and, in the longer term, capital-labor substitution) will occur, and the very constituency that the minimum wage policy is intended to benefit will be the one most negatively impacted—such as the lower-skilled, less productive individual who is most likely to be at the bottom of the earnings scale and one with the fewest options.

LONGER TERM

Relocations and closures:

Firms will weigh costs and benefits in their relocation and closure decisions. Any changes in prices will impact these decisions. Certainly, at some labor price, relocations and closures will occur. Not all businesses can pass their cost increases through to their consumers. Not all businesses will be capable of absorbing remaining cost increases. At the margin, increased costs will impact business profitability and will result in some business failure—independent of future growth of other firms. Whether or not these losses are offset by expected increases, the overall employment trajectory will be reduced and jobs will be lost.

While relocation costs may be too high for current firms to consider moving out of Long Beach, such costs do not fall on new firms and thus the issue does not speak to the likelihood of firms choosing where to locate in the future—or where to expand operations. Certainly, operating costs, including labor costs, are a factor in location decisions made by new or expanding firms

Capital-labor substitution:

As noted above, the balance between labor and capital in production is based on prevailing prices, such as wages and interest rates. Changing relative prices will favor using one factor over the other. Both labor and capital have start-up costs, however, as do changes in production processes. Over time, such costs are easier to absorb and amortize, and initial investment costs will be less of a barrier. With a longer time horizon, and at some cost of labor, employers will invest in capital to replace labor. Indeed, the story of the 20th century was one of capital-labor substitution in the United States, with capital equipment and automated processes replacing the need for a multitude of positions, including assembly line workers, office workers, drafters, secretaries, accountants, and others. Technological improvements will continue to reach into many occupations and will reach even those that are commonly thought to be irreplaceable, such as food servers, apparel manufacturers, drivers, dog-walkers, personal assistants, and many more. While it is true that capital-labor substitution yields higher productivity and in the long run improves standards of living and incomes, transitions from labor-intensive to more capital-intensive production have the potential to dislocate many workers as those that are replaced may not be well-matched in skills and experience to alternate occupations.

SUMMARY

Our reading of the literature, the comments heard at open forums, and the results of our survey of businesses in Long Beach, lead us to conclude:

- Many workers will be immediately impacted

- Employers that have minimum wage employees or employees who will be impacted by future increases may respond using one or more of the following strategies:
  - Cutting back on employment (either reducing hours or jobs) or on employment growth
  - Substituting the lowest-skilled workers with employees that are more productive, which would primarily affect those most difficult to place and those with the least skills
  - Increasing prices
  - Absorbing cost increases through reduced profits

- In the absence of widespread regional implementation, these responses will be accentuated due to the fractured political boundaries surrounding the City of Long Beach
  - Smaller firms are more likely to employ minimum wage employees and will be most impacted while having the fewest options for managing cost increases

- Over the long term:
  - The relative costs of capital and labor may encourage more automation
  - Firms that can no longer compete may relocate (if they are able) or close
  - Business operations will become more efficient
  - More cities may be likely to adopt similar policies, making competition among neighboring regions less of an issue

- Economy-wide results:
  - Wages will rise for those in minimum wage jobs that are still employed
  - Employment opportunities for those at the bottom of the skills ladder will very likely be diminished
  - Many prices will increase, including those that lower-income households commonly face
  - Employment growth may slow

RECENT EXPERIENCE IN OTHER CITIES

Cities have traditionally restrained themselves from entering the minimum wage debate and left the issue to their state governments and the federal government. The first cities to diverge from this tradition were those that, in the late 1990s to early 2000s, passed a series of living wage ordinances. Living wage ordinances mandate minimum wages for a select number of industries and were usually restricted to those firms that either received city contracts or some other form of business assistance.

The first city to successfully enact a living wage ordinance for city contractors was Baltimore, Maryland in July 1995. Milestones during this era include Minneapolis, Minnesota's April 1997 ordinance, which was the first to extend their living wage to recipients of business assistance, and Durham, North Carolina's February 1998 ordinance, which included a provision to raise city government employee wages.

Exhibit 1-1
Milestones in Local and Living Wage Ordinances

Baltimore, MD July 1995	First living wage ordinance
Minneapolis, MN April 1997	First living wage ordinance to include business assistance recipients
Durham, NC February 1998	First living wage ordinance to include city government employees
Santa Fe, NM February 2003	First local minimum wage ordinance
San Francisco, CA November 2003	First Californian local minimum wage ordinance

Santa Fe, New Mexico was the first city to enact a minimum wage in February 2003 by including all firms that required a license from the city to do business. A minimum wage differs from a living wage in that it targets most, if not all, workers in a jurisdiction. Living wages in comparison cover only a small segment. The Santa Fe ordinance provided exemptions for small firms (those with fewer than 25 employees), youth trainee programs, and non-profits that provided healthcare (Medi-Cal-reimbursed) services.

The Santa Fe model was replicated in San Francisco in November of 2003 and in Albuquerque in 2006, but failed to catch on elsewhere. A few other cities, including Santa Monica, tried during that time to follow but were unsuccessful.

The late 2000s saw relatively few living wage ordinances pass and those that did were confined to raising the wages of specific sectors. A local minimum wage ordinance was enacted by San Jose in 2012, but it failed to encourage other cities to act.

It was not until June 2014 when Seattle, Washington passed a local minimum wage ordinance to raise its hourly minimum wage to $15.00 by 2017 (with small businesses given a year's extension), that momentum for minimum wage increases at the local level gained traction once again. In the short time since, dozens of cities and counties have passed local minimum wage ordinances, including Los Angeles and Chicago.

The general pattern has been for a metropolitan region's main city to enact a minimum wage ordinance followed by adjacent cities adopting similar policies in order to maintain a consistent regional policy. San Francisco's minimum wage ordinance has encouraged similar ordinances elsewhere in the wider Bay Area including Berkeley, Oakland, and Mountain View. Palo Alto and Santa Clara cities have announced intentions to join. Similarly, the City of Los Angeles ordinance has been followed by a near identical ordinance by the county covering unincorporated areas. The cities of Long Beach, West Hollywood, Pasadena and Santa Monica are all in various stages of considering a minimum wage.

That municipalities have the legal authority to set their own minimum wages higher than state-mandated levels is being tested in several states, including Kentucky and Missouri, and is explicitly banned in many others, such as Texas, Alabama and Oklahoma. This has not prevented some cities from attempting to promulgate their own policy, but several are now facing legal challenges.

In California, after months of discussion the City of Sacramento's City Council passed a local minimum wage ordinance in late October 2015. Sacramento hopes to reach a local minimum wage of $12.50 by 2020. Small employers, including non-profits, with less than forty employees will be given an extra year to reach the new minimum wage rate. Sacramento is the first city in California's Central Valley region to adopt a minimum wage above the state rate.

Other than Sacramento, only cities in the Los Angeles-Long Beach Metro or San Francisco Bay Area have adopted minimum wage increases. The principle cities in each region are aiming to reach a minimum hourly wage of $15.00 within a few years. An ordinance that was passed in the City of San Diego is currently facing legal challenges and is now planned for a plebiscite. If San Diegans vote to retain the ordinance, the minimum wage will jump to $10.50 in 2016 and reach $11.50 by 2017.

Exhibit 1-2 presents current adopted or proposed policy in a number of cities.

Exhibit 1-2
Status of Local Minimum Wage Ordinances Across the Nation

City	State	Base Year	Base Wage (City)	Status of New Min Wage	Target Wage (City)	Fully implemented by
Birmingham	AL	2015	$7.25	Legal challenges	$10.10	2017
Berkeley	CA	2014	$9.00	Implementing	$12.53	2016
Emeryville	CA	2015	$14.03	Implementing	$15.60	2018
Los Angeles	CA	2015	$9.00	Implementing	$15.00	2020
Los Angeles County	CA	2015	$9.00	Implementing	$15.00	2020
Mountain View	CA	2014	$10.30	Implementing	$15.00	2018
Oakland	CA	2014	$9.00	Implemented	$12.25	2015
Richmond	CA	2014	$9.00	Implementing	$13.00	2018
Sacramento	CA	2015	$9.00	Implementing	$12.50	2020
Sacramento County	CA		$9.00	Proposal		
San Diego	CA	2014	$9.00	Ballot issue for June 2016	$11.50	2019
San Francisco	CA	2014	$10.74	Implementing	$15.00	2018
San Jose	CA	2012	$8.00	Implemented	$10.00	2014
Santa Monica	CA	2015	$9.00	Vote delayed till end of year		
Sonoma County	CA		$9.32	Proposed		
Sunnyvale	CA	2014	$9.00	Implementing	$15.00	2018
Palo Alto	CA	2015	$9.00	Implementing	$11.00	2016
Santa Clara	CA	2015	$9.00	Implementing	$11.00	2016
Washington DC	DC	2014	$9.50	Implementing	$11.50	2016
Montgomery County	DC-MD	2014	$7.25	Implementing	$11.50	2017
Prince George's County	DC-MD	2014	$7.25	Implementing	$11.50	2017
Johnson County	IA	2015	$7.25	Implementing	$10.10	2017
Iowa City	IA	2015	$7.25	Proposed	$10.10	2017
Chicago	IL	2014	$8.25	Implementing	$13.00	2019
Louisville	KY	2014	$7.25	Implementing	$10.10	2017
Lexington	KY	2015	$7.25	Subject to state approval	$10.10	2018
Portland	ME	2015	$7.50	Rejected by voters 11/3/2015	$15.00	2017
Kansas City	MO	2014	$7.65	Canceled due to state ban	$13.00	2020
St. Louis	MO	2015	$7.65	Legal challenges	$11.00	2018
Albuquerque	NM	2006	$5.15	Implemented	$8.50	2013
Bernalillo County	NM	2013	$7.50	Implemented	$8.50	2014
Las Cruces	NM	2014	$7.50	Implementing	$10.10	2016
Santa Fe	NM	2003	$5.15	Implemented	$9.50	2006
Santa Fe County	NM	2014	$7.50	Implementing	$10.66	2015
Seattle	WA	2014	$9.32	Implementing	$15.00	2017
Tacoma	WA	2015	$9.47	Approved by voters 11/3/2015	$12.00	2018
Olympia	WA	2015	$9.47	Proposed		

MITIGATION STRATEGIES

City governments serve their residents, who are both workers and business owners. Minimum wage policy will affect both constituencies, but the effects will be quite different. For working residents, it will certainly be a positive impact to receive higher wages for work they perform. For businesses, their labor costs will increase and their profits may suffer. To balance the costs and benefits of any minimum wage policy, city leaders may turn to strategies that might lessen the cost to businesses (and to workers that might be harmed indirectly) while still providing benefits to workers that are most in need.

POLICY-SPECIFIC STRATEGIES

Exhibit 1-3 presents mitigation mechanisms that several Californian cities have adopted or are expected to adopt in the near future. This list includes both cities that have formally passed their ordinances, such as Los Angeles, and those whose ordinances are being finalized but may not have been approved yet. Cities whose proposals are still in the early stages are omitted.

Exhibit 1-3
Mitigation Efforts of Selected California Cities

City	Small Bus Lag	Small Bus Employee Definition	Union Exempt	Tip Credit	Non-Profit Lag	CalWorks Exempt	Youth Trainee Program Exempt	IHSS Exempt	Indirect Hire Exempt
Berkeley	No		Yes	No	Yes	No	Yes	No	No
Emeryville	Yes	55	Yes	No	Yes	No	No	No	No
Los Angeles	Yes	25	No	No	Yes	No	Yes	No	No
Mountain View	No		Yes	No	No	No	No	No	No
Oakland	No	10	Yes	No	No	No	No	No	No
Palo Alto	No		Yes	No	No	No	No	No	No
Richmond	No		Yes	No	No	No	Yes	No	No
Sacramento	Yes	40	No	No	Yes	No	No	No	No
San Diego	No		No	No	No	No	Yes	Yes	No
San Francisco	No		Yes	No	No	No	Yes	No	No
San Jose	No		Yes	No	No	No	No	No	No
Santa Clara	No		Yes	Yes	No	No	No	No	No
Santa Monica	Yes	25	Unclear	No	Yes	No	Yes	No	No
Sunnyvale	No		Yes	No	No	No	No	No	No

- **Small businesses:**

Small businesses are not exempt from Californian local minimum wage ordinances, but several cities, including Los Angeles, have provided a separate schedule for small businesses to raise their wages. It is hoped that by giving small businesses more time to adapt they may be able to mitigate potential harm. The definition of what constitutes a "small business" varies among jurisdictions. In Los Angeles, this refers to firms with 25 or fewer employees. Oakland does not provide for a separate schedule but nonetheless defines what constitutes a small business for other related ordinances.

As with other phased implementation schemes, it is not clear how or why these measures would be approved—beyond their political palatability. Firms given extra time to adjust will move towards the same cost-cutting strategies as all other firms, such as employment reductions, labor-labor substitution, capital-labor substitution and, potentially, relocation or closure. A phased implementation will allow firms to make such adjustments in anticipation of the policy *without their costs actually increasing.* These cost increases would have been the increased earnings of minimum wage employees, which a phased implementation will postpone—hence the benefits of the policy (increased earnings) will be delayed while the costs (employment losses, employment changes) will be immediate. Rather than some minimum wage employees earning a raise at the expense of others potentially losing their jobs, phased implementation suggests that some minimum wage workers will lose their jobs before any raises are actually mandated.

- **Unions and collective bargaining agreements:**

Unions have sought and received exemptions from several local minimum wage ordinances, mostly in the San Francisco Bay Area, by allowing collective bargaining agreements to set a wage below the local minimum wage. Notably both the City and County of Los Angeles have not granted an exemption to unions.

Exempting unions has been one of the more divisive points of local minimum wage laws. While union leadership states that minimum wage laws are an unnecessary intrusion into the employer-employee bargaining process, others fear that union exemptions may motivate firms to concede to unionization of their workplace in order to avoid the local minimum wage ordinance—thereby ultimately impacting the bargaining power of unions at the expense of employers.

- **Tip credit or total compensation:**

Workers who receive gratuities or tips are exempt from the federal minimum wage rate, provided that their total earnings meet the minimum wage threshold. If workers make less than the minimum wage through their base wages and gratuities, then their employers must pay the difference. This is commonly called a tip credit, as employers are given a credit for gratuities received by employees. Most states provide a similar exemption in their state minimum wage laws. However, several do not, including California, Oregon, Washington, Nevada and Vermont. These states require tipped workers to be paid the state mandated minimum wage regardless of any additional pay earned through gratuities. The result may be that many tipped minimum wage workers earn total hourly compensation well in excess of the minimum wage.

No Californian city thus far has enacted a local minimum wage ordinance that allows a tip credit. Sacramento and Santa Clara considered doing so in early drafts of their ordinances. Santa Clara skirted the tip credit controversy by specifying that gratuities would have to be those guaranteed through a service charge or similar mechanism rather than a customer-selected gratuity. Sacramento ultimately

removed the gratuity exemption from the final text of its ordinance due to its political unpopularity and concern that it was illegal to exempt tipped workers.

In any case, no local ordinance could exempt workers from the state minimum wage, hence the base wage must still meet or exceed the state minimum wage.

Consideration of such an exemption in a local ordinance would likely meet legal challenges. California's State Legislature's Chief Attorney has already suggested that such an exemption likely conflicts with state law but no definite ruling has been made as of the date of this report.

- **Non-profits:**

California cities by and large do not exempt non-profits altogether from their local minimum wage ordinances. San Francisco's earlier ordinance did, but the city now provides only a narrow exemption to those non-profits that provide services to the elderly. The City of Los Angeles has a lagged schedule similar to that for small businesses. Santa Monica has proposed both a narrow exemption for non-profits that provide services to transitional workers (i.e., new labor market entrants) and a lagged schedule for non-profits generally.

The argument for including non-profit organizations is that failing to do so would encourage employees at non-profits to seek higher wage employment elsewhere. The counter argument is that non-profit employees are motivated by factors other than simply wages, such as the desire to engage in meaningful work and be community-minded.

Other considerations are that many services provided by non-profits disproportionally focus on aiding low-income families, minorities, and other traditionally marginalized groups. Changes to their cost structure may impact their ability to continue providing these much needed services. Other non-profits are engaged in services that are reimbursed through state-funded programs at pre-determined levels. Such organizations have limited ability to mitigate rising labor costs, such as through price increases, and will necessarily face a funding gap that will require a reduction in services.

Identification of those specific non-profits that are dependent on defined reimbursements may provide a mechanism for exemption or delayed implementation applied to these entities alone.

- **CalWorks Welfare-to-Work (adult trainee programs):**

None of the Californian cities surveyed explicitly exempt CalWorks Welfare-to-Work program participants from their minimum wage ordinance. CalWorks is a state program that provides participants with a cash transfer in exchange for working or training in preparation of acquiring a permanent job. To circumvent minimum wage provisions, however, local minimum wage ordinances limit the amount of hours that CalWorks participants work so that they do not work more than if they held a minimum wage position. If, for example, a city adopted a $10.00 minimum wage and a CalWorks recipient received $100 weekly, then the CalWorks recipient would be permitted to work for only ten hours. Unfortunately, this may be counter-effective to the purpose of the CalWorks program, which is to provide individuals with the skills necessary to attain a permanent job after completion. Reducing the working hours of CalWorks participants may reduce their probability of success.

Although not yet possible to do given the relative newness of most of these ordinances, future studies may wish to do a comparative study of CalWorks participant outcomes in cities with and without local minimum wage ordinances.

- **Youth training programs:**

Related to the CalWorks exemption is a series of exemptions for youth trainee programs. These programs, which vary in detail across cities, connect youth with employers and provide them with training in order to prepare them to enter the workforce in the near future. Some of these programs, including Long Beach's Pacific Gateway program, are affiliated with CalWorks program but others are operated through a non-profit or other government agency.

Participants usually earn minimum wage rates for work done during the trainee program and a few "learners" make wages below the local minimum wage during their training period. A learner, as defined by the California Industrial Welfare Commission (IWC), is "an employee during their first 160 hours of employment working in occupations in which they have no previous similar or related experience. A learner may be of any age." The IWC was a part of the Californian Department of Industrial Relations but is currently defunct, its role enforcing labor standards now being handled by the Division of Labor Standards Enforcement (DLSE).

Youth trainee program proponents argue that in the long run participants have better outcomes by gaining skills for the future. Opponents of these programs sometimes argue that they discourage youth from attending higher education institutions and there is some evidence that youth who are prevented from entering the workforce by a minimum wage do accrue more years of education than they would have otherwise. The retort to this argument is that educational attainment, especially collegiate study, is costly to youth who come from a low-income background and who do not have adequate financial support.

Local minimum wage ordinances in New Mexico cities exempt youth workers (17 years or younger) provided they work only after school or during summer break, regardless of participation in a trainee program. It is unclear if California cities can provide a similar age-based exemption, but may be able to exempt defined trainee program participants, provided the exemption cannot be used to churn through successive "trainees" as a way to avoid paying minimum wages to workers in positions that would otherwise be of a term longer than 160 hours.

The Sacramento city council removed proposed exemptions from its ordinance related to youth workers (under the age of eighteen) or participants of work training programs.

Any proposal that wished address the need for youth to have access to employment opportunities while unskilled in order to learn work skills, such as, for example, a reduced wage scale, should be written to specify an age bracket, which is easily verified, rather than an employment tenure (such as the first 120 days of employment).

- **IHSS providers:**

In Home Supportive Services (IHSS) providers are not specifically exempted from local minimum wage ordinances with the exception of San Diego, whose ordinance is awaiting final approval by popular ballot. IHSS providers work for elderly and disabled Californians by helping them perform essentials tasks they cannot do themselves, such as cooking meals or going to medical appointments. The program is promoted as an alternative to provide recipients with in-home care that is both more convenient for them and less costly than providing similar services out-of-home (such as, for example, in residential nursing facilities).

Some IHSS providers are extended family members or friends of recipients. In these situations, the program serves the additional purpose of allowing low-income families to provide for their family members without feeling conflicted about giving up the opportunity to work at a salaried job elsewhere.

The IHSS program is primarily funded by the State of California and the federal government, with counties providing day-to-day administration. Currently, the County of Los Angeles has set a uniform hourly pay of $9.65 for IHSS workers within the county and is considering the implications of including them in their minimum wage coverage. Until recently, IHSS providers have been exempt from the full minimum wage. There is a pending federal legal case on how overtime and other labor standards should apply to IHSS workers.

Not exempting IHSS workers could substantially increase average case costs. While the state government could increase funding for the IHSS program to ensure that IHSS providers receive a pay raise without burdening IHSS recipients, this appears unlikely as the state government is currently evaluating options that would reduce IHSS funding. In the event funding is not increased at the state level, any potential pay raises for IHSS workers would be borne by the service recipients themselves (which also seems unlikely given the hardship this would precipitate). Without a clear source of funding, exemptions for IHSS workers will continue until the state changes its reimbursement policy.

- **Indirect hiring:**

As defined by the California Labor Code, an “employer” is any person, including a corporate officer or executive, who directly or indirectly or through an agent or any other person, including through the services of a temporary service or staffing agency, employs or exercises control over the wages, hours or working conditions of any employee.

California cities have explicitly *not excluded* employees working through a staffing agency, temporary employment agency, or other indirect methods from their local minimum wage ordinances. Long Beach may wish to use similar language in any minimum wage ordinance it enacts so that employers do not seek to avoid paying their employees the local minimum wage by changing their classification or through indirect employment arrangements.

CITY OPERATONAL LEVERS

While any proposed ordinance can be crafted to include exemptions, waivers or other specifications, the City itself has a number of tools that it can choose to deploy to better assist firms during their transition to an environment of higher labor costs. Examples of such tools, many of which may involve very limited public resources, include:

- A citywide and year-round “Shop Long Beach” campaign marketed to local consumers that would increase the feeling of commitment to the community while simultaneously boosting demand for local businesses.

- A “B2B” (business-to-business) campaign that encourages firms to buy their goods and services from local firms, minimizing leakage from the area and circulating funds within the city borders.

- Any purchases that residents and businesses make outside of the City borders represent a loss not only of revenue for local firms but also of sales tax revenue to the City. If not already doing so, the

City should track ongoing trends of its highest sales tax generating firms to determine if leakage from each individual account is increasing, and, if so, what measures are available to staunch the loss.

- The City itself is a significant buyer of goods and services, and already has a local preference program. The preference program can be expanded to include not only City departments but also encourage the implementation of similar programs at Long Beach Unified School District, California State University Long Beach, the Port of Long Beach and Long Beach City College.

- However, many firms, in particular small businesses, may well be unaware of available opportunities to sell to the City and are unfamiliar in the procedures needed in the procurement process. The City can increase promotion of procurement opportunities and continue to coordinate workshops or webinars to educate willing sellers and to reach out to as many local firms as possible, and to ensure that they are registered as potential suppliers so that opportunities are directed to them automatically when they arise.

- Reducing red tape for permits and reducing costs for small businesses where possible, such as online permitting and project tracking, and establishing a single point of contact for city services; ensuring that the City's comprehensive list of existing programs offering support to small businesses is up to date and made widely available. *(Note: The City offers online permitting only for licensed California contractors. Business license and other applications are available online but need to be submitted to City Hall for processing.)*

- Education and workforce development resources in Long Beach include the Pacific Gateway Workforce Investment Network, the Small Business Development Center, Long Beach City College and California State University Long Beach. With the encouragement of the City and some funding, these resources can be coordinated to offer additional entrepreneurship training, small business skills, and other business assistance services.

- Provide business license fee waivers to assist small businesses as they transition to a higher labor cost environment.

Many of these strategies are currently being used by cities as they compete in a global marketplace for firms, but a telephone survey of cities revealed very few efforts to extend or expand these efforts in direct response to newly-implemented local minimum wage policies.

If a proposed minimum wage increase is adopted, many of these City-led mitigation strategies should be immediately and widely marketed as a proactive approach to business assistance.

ENFORCEMENT

A local minimum wage ordinance will only be effective if compliance measures and an enforcement structure are developed. At the state level, as California's minimum wage exceeds that set at the federal level, compliance is enforced by the California Division of Labor Standards Enforcement (DLSE) of the California Department of Industrial Relations. Similarly, as municipalities raise their own minimum wages above state mandates, they will be responsible for enforcing their local statutes.

As most of the more recent local minimum wage laws have not been in effect for long, records of the costs and resource needs of these jurisdictions for enforcement are not readily available. Anecdotal evidence and discussion with city staff suggest that local jurisdictions expect to add only a few staff positions. The actual number of positions will depend on the size of the impacted labor force and the type of enforcement strategy pursued.

San Francisco, which passed the first Californian minimum wage ordinance in November 2003, employed eighteen compliance officers and seven additional contract officers during the 2013 fiscal year. However, in addition to the local minimum wage, the San Francisco enforcement agency also enforces other labor standards, such as the city's paid sick leave ordinance.

In smaller cities, existing city employees may simply have their duties and hours extended. This latter strategy requires fewer resources than hiring a devoted enforcement officer but may not provide the same effectiveness as a full-time enforcement agency.

California's enforcement office, the DLSE, may not currently aid in enforcement of local minimum wage ordinances, but will be able to do so starting next year. Assembly Bill 970, passed in October 2015, allows the state enforcement agency to enforce the local minimum wage and overtime statutes if asked by the municipality. For smaller cities, calling on the state enforcement agency to enforce the local minimum wage on its behalf may prove sufficient, but larger cities may still wish to create their own enforcement agencies. At this time, however, AB970 has no appropriations and its effectiveness will depend on funding made available in the next budget cycle.

In terms of enforcement strategy, the prevalent strategy is *responsive* to complaints from workers or from private civil suits filed by workers. Due to limited resources most cities have been unable to adopt a *proactive* enforcement strategy that would involve investigation or auditing of firms within the jurisdiction—although a few have attempted to do so.

If a city pursues a responsive enforcement strategy, it may wish to include a clause in its ordinance directing attorney fees and other costs of litigation to be paid by the employer if a violation is found to have occurred. This will allow employees who feel their rights have been violated to file complaints without fear of incurring large legal fees. The State of California already requires employers to pay filing costs and reasonable attorney fees of employees seeking back wages if found to have been in violation.

In California, many cities that have passed minimum wage ordinances also include a clause emphasizing a desired goal to resolve disputes "informally," with the enforcement agency seeking to avoid initiating litigation against suspected violators, presumably to avoid costly legal disputes. Cities will also often

require firms under investigation for possible violation of the local ordinance to inform all employees. It is hoped that this will encourage workers, after an initial whistleblower has come forward, to cooperate in providing testimony. Other enforcement mechanisms include explicitly prohibiting retaliation against employees who question their employers about compliance, and protecting the identity of whistle-blowers, to the extent possible, who inform authorities about a violation. This is significant to consider as marginalized individuals are unlikely to report a violation of the local minimum wage ordinance without some assurance that they will be protected from employer retaliation.

To encourage employer cooperation, most cities require payroll records be kept for some length of time, perhaps three or four years. When employers fail to provide payroll records and are accused of having violated the minimum wage ordinance, it is presumed that the employee's claim has merit.

In all ordinances, employers are required to notify and/or post notification of the relevant minimum wage ordinance for employees. Most Californian cities require these notices to be made in those languages most widely-spoken in the work place and/or city in order to reduce possible exploitation of non-English speakers.

The primary relief for workers is through civil litigation. Most cities also include administrative penalties. In California, many cities impose a daily fine. Some cities also allow licenses to be withheld or revoked until such time as the employer compensates employees for wages owed.

While violations at the state level does allow for criminal penalties, this options is not available to local governments. The Sacramento minimum wage ordinance, passed in late October, makes violation a misdemeanor. The state considers it a misdemeanor for the following: (1) employment records not maintained for a minimum of three years by employers; (2) refusal or hindrance of access to employment records by an employer or his agents; and (3) back wages and/or penalties remaining unpaid after ninety days of a final order. The latter misdemeanor includes jail time of up to a year if the amount owed is in excess of a thousand dollars. Publication of state criminal penalties and any local fees and penalties may induce cooperation from employers.

Exhibit 1-4
Enforcement Mechanisms for Selected Cities in California

City	Revoke Licenses	Administrative Penalty	Retaliation Prohibited	Private Reprisal
Berkeley	Yes	Yes	Yes	Yes
Emeryville	Yes	Yes	Yes	Yes
Los Angeles	Yes	Yes	Yes	Yes
Mountain View	Yes	Yes	Yes	Yes
Oakland	Yes	Yes	Yes	Yes
Palo Alto	Yes	Yes	Yes	Yes
Richmond	Yes	Yes	Yes	Yes
San Francisco	Yes	Yes	Yes	Yes
San Jose	Yes	Yes	Yes	Yes
Santa Clara	N/A	Yes	Yes	Yes
Sunnyvale	Yes	Yes	Yes	Yes

In 2013, San Francisco convened a task force composed of representatives of several city departments to examine how to implement better procedures to enforce labor ordinances. The task force provided the following recommendations:

- Promote inter-agency collaboration, so that a holistic approach to firms is facilitated
- Coordinate data sharing, such as recording business registrations with all departments that firms might interact with
- Revoke licenses and/or assistance to violators
- Provide greater educational outreach to inform employees of their rights and remedies

On October 29, 2015, the Chief Executive Officer of the County of Los Angeles issued a report to the Board of Supervisors with recommendations for the most effective and efficient model by which the County can enforce local wage and hours regulations. The report reviewed existing wage enforcement efforts, state and federal wage enforcement efforts (and perhaps how to collaborate, especially in cost recovery) and provided an estimate of staffing and resources needed to operate an enforcement agency.

The County CEO report noted that the County currently has no enforcement mechanism and provides recommendations for a multi-year enforcement program that will initially cost $818,000 for six months of funding for 11 positions and which will grow to cost approximately $2.3 million annually with 15 positions.

This seems consistent with the experience in San Francisco, where enforcement costs have been approximately $1.7 million annually since 2004, but are anticipated to increase by $1.1 million annually as their new policy becomes fully implemented.

Funding of an enforcement effort at the municipal level is challenging. The idea that penalties and fees levied against violators could produce sufficient resources to fund enforcement is not well-founded. In the longest known record of local enforcement, San Francisco's enforcement agency does earn revenues through employer penalties. However, these have accounted for approximately 15 percent of its expenditures, hence what might be viewed as the most mature program is certainly not self-funded.

Long Beach is unlikely to have the same enforcement costs as San Francisco or Los Angeles County in its unincorporated areas as it has far fewer jobs within its jurisdiction.

PART 2: THE CITY OF LONG BEACH

DEMOGRAPHICS AND EMPLOYMENT

The second largest city in Los Angeles County, the City of Long Beach has a population of 465,000 residents in 163,800 households, representing approximately 5 percent of Los Angeles County. The median income is $52,711, somewhat less than the median across Los Angeles County at $55,909.

In this section we compare the demographic makeup of Long Beach compared to the average across Los Angeles County.

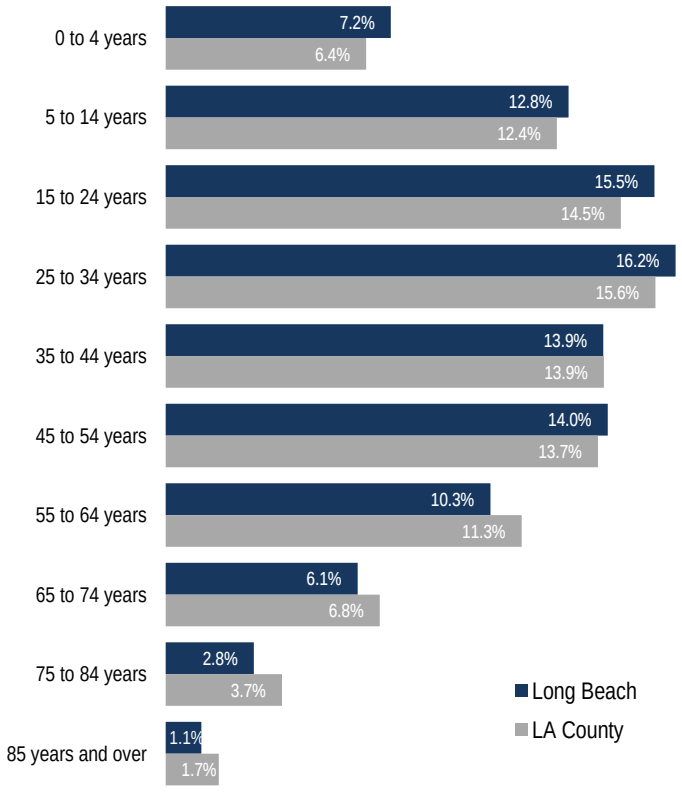
- **Age distribution:**

Age distribution is one way to determine whether a population within a city is expected to grow, excluding other factors. A large number of children indicate an expected increase in population, while small number may signify an expected decline. It can also provide a picture of the aging profile of the population, which will affect the future needs of the area in terms of replacement workforce and provision of services.

In the City of Long Beach, 70 percent of the residential population is of working age (between 15 and 64 years of age). Seniors (those over 64 years of age) account for approximately 10 percent of the population, compared to 12.2 percent countywide.

The population of the City of Long Beach appears to be somewhat younger than the county overall. The median age in Long Beach is 34 years, compared to the County median of 35.8 years.

Exhibit 2-1
Age Distribution of Population 2014



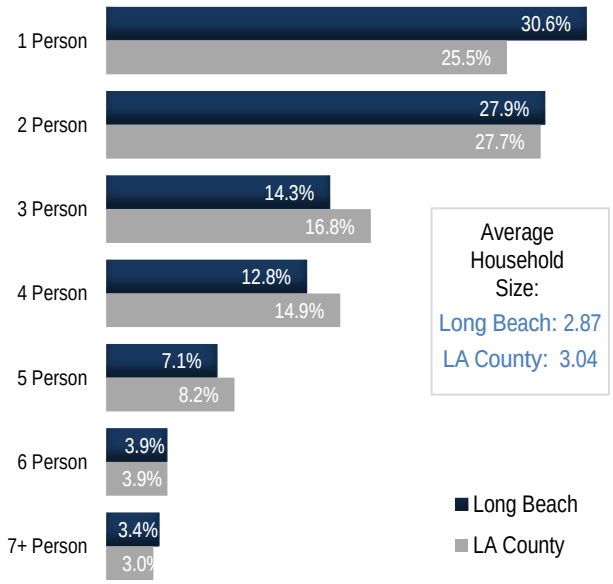
Source: 2014 ACS, 1-year estimates

Households by size:
There were 161,870 households in Long Beach in 2014, with an average household size of 2.87 people per household. This is comparable to the Los Angeles County average household size of 3.04 people.

The distribution of households can be an indicator of the standard of living within an area. Often, lower income areas will have a higher share of large-sized households as people reside together to share fixed household expenses such as rent.

One- and two-person households account for 58.5 percent of all households in Long Beach and 53.2 percent across the county. However, the county also has a significant number of large-sized households: 14.4 percent of all households in Long Beach and 15.1 percent of households across the county have five or more people.

Exhibit 2-2
Households by Size 2014



Source: 2014 ACS, 1-year estimates

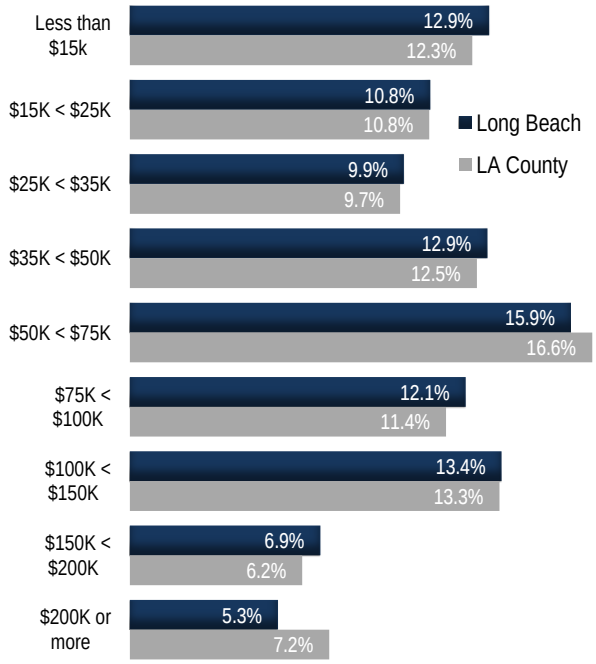
Households by income and expenditures:
Median household income is the midpoint value of all household income levels in the area. In the City of Long Beach, the median household income in 2014 was $54,511, compared to the County median of $55,746.

Almost 47 percent of households in Long Beach earn less than $50,000 per year, and 12.2 percent earn over $150,000 per year (Exhibit 2-3).

Household expenditures are related to household incomes, not only in magnitude but also in composition. Households with lower incomes tend to spend a larger percentage of their income on necessities, such as food and rent, and have less disposable income for luxury items such as travel and leisure activities.

In 2014, household expenditures in the Los Angeles Metropolitan Statistical Area (MSA), which includes Los Angeles County and Orange County, averaged $78,950. In Long Beach, households spent an average of $69,480. Approximately 38 percent was spent on housing, 14 percent on food and 15 percent on transportation.

Exhibit 2-3
Households by Income 2014



Source: 2014 ACS, 1-year estimates

Occupations of working residents:

Working residents are trained for and employed in a variety of occupations. Major groupings of these are shown in Exhibit 2-4.

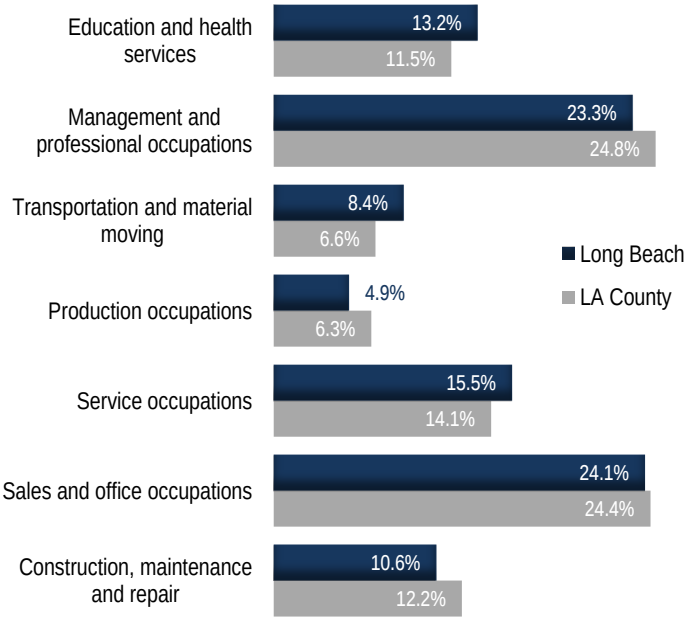
Some occupations are in large part specific to certain industries. For example, nurses are more likely to work in hospitals or health care facilities than they are in manufacturing firms.

Other occupations are found in many industries, such as administrative workers, accountants, customer service representatives and managers.

The occupational distribution of the city's working residents is diverse, with 61 percent employed in white collar occupations such as sales, office, management and professional occupations, 24 percent in blue collar occupations such as construction, production and transportation, and 15 percent in services.

The occupational distribution of Long Beach is quite similar to that of workers across Los Angeles County, with a somewhat larger share in service and transportation occupations and somewhat less in manufacturing (production) occupations.

Exhibit 2-4
Resident Employment by Occupation
Population 16 years of age and older

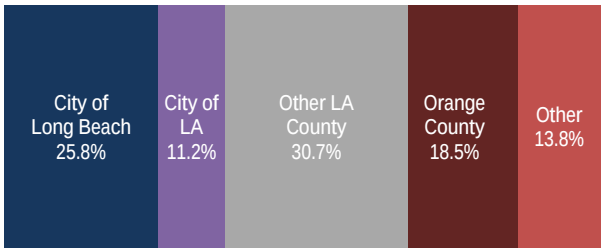


Commuting out of Long Beach:

Working residents make a conscious decision about the length of the commute they are willing to undertake to a potential place of employment. Where Long Beach residents are employed is shown in Exhibit 2-5.

Approximately 26 percent of working residents have jobs in the City of Long Beach itself (perhaps more than one). Another 11.2 percent is employed in the City of Los Angeles, 30.7 percent in other areas of Los Angeles County such as Lakewood, Carson and Torrance, and 18.5 percent in Orange County. The remaining residents work in counties other than Los Angeles and Orange.

Exhibit 2-5
Where Long Beach Residents Work



Jobs in Long Beach:

There are a variety of data sources that shed light on the actual jobs that are in a region. The latest data from the California Employment Development Department reports that in 2014, there were approximately 146,580 payroll jobs in the City of Long Beach. The distribution of these jobs by industry is shown in Exhibit 2-6. The exhibit also shows the distribution by industry of payroll jobs across Los Angeles County and in Orange County.

Exhibit 2-6
Distribution of Employment by Industry (2014)

	City of Long Beach	Los Angeles County	Orange County
Natural resources	0.4%	0.2%	0.2%
Construction	2.6%	2.9%	5.5%
Manufacturing	6.2%	8.7%	10.7%
Wholesale trade	3.2%	5.3%	5.5%
Retail trade	8.6%	9.9%	10.0%
Transportation, warehousing and utilities	6.7%	3.7%	1.8%
Information	1.2%	4.7%	1.6%
Financial services	4.1%	5.0%	7.7%
Prof and bus services	8.8%	8.1%	10.1%
Administrative support and waste management	6.3%	6.4%	8.5%
Educational services	1.0%	2.5%	1.7%
Health care and social assistance	19.8%	14.7%	10.9%
Arts, entertainment and recreation	1.2%	1.9%	2.9%
Accommodation and food services	11.8%	9.3%	10.2%
Other services	4.0%	3.5%	2.9%
Government	13.9%	12.8%	9.5%
Non-classified	0.1%	0.4%	0.4%
TOTAL	100.0%	100.0%	100.0%
TOTAL EMPLOYMENT	146,577	4,154,640	1,472,171

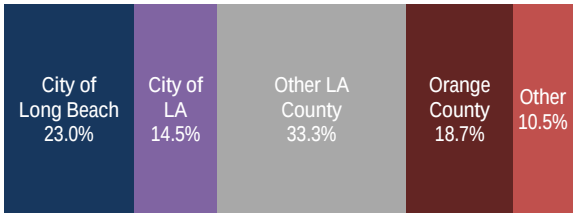
Several distinctions may be made in reference to the industrial makeup of each geography. First, manufacturing plays a larger role in employment in Orange County than in Los Angeles County and Long Beach. Second, not surprisingly, transportation and warehousing are more heavily represented in Long Beach than across Los Angeles County and in Orange County. Third, Long Beach has a larger share of its employment in health care and social assistance than either Los Angeles County as a whole or Orange County. Fourth, accommodation and food services is also an industry that is more heavily represented in Long Beach than surrounding areas. Finally, government employment accounts for almost 14 percent of payroll employment in Long Beach, versus 12.8 percent across the county and 9.5 percent in Orange County. This is likely due to the presence of the VA Hospital and California State University Long Beach, both large employers in the government sector (and not in the health care or education sector).

Commuting into Long Beach:

Not all of the jobs in Long Beach are held by residents of Long Beach. Many workers commute into the city from surrounding region. Exhibit 2-7 shows the City's labor shed, or where firms in the city get their employees from.

Of all payroll jobs in the City of Long Beach, just 23 percent are held by Long Beach residents. Another 14.5 percent are held by residents of the City of Los Angeles, 30.9 percent are held by residents elsewhere in Los Angeles County, including Lakewood, Carson, Torrance and Compton, and 18.7 percent are held by residents of Orange County. The remaining jobs are held by residents of counties other than Los Angeles and Orange.

Exhibit 2-7
Where Job Holders Live



Long Beach firms by size:

The Census Bureau tabulates firms by number of employees for a variety geographies, such as states, counties and zip codes. This data is not available for the City of Long Beach alone, but Long Beach can be approximated by aggregating zip code level data for the majority of zip codes in Long Beach. This aggregation is shown in Exhibit 2-8. The approximate number of employees by firm size is estimated using the midpoint of each firm size range. For example, 4,480 firms with between 1 and 4 employees are estimated to have 11,200 employees (2.5 * 4,480).

The estimates are not perfect but provide some guidance. This data differs from the payroll data provided by the California Employment Development Department in that it does not include services for the elderly and persons with disabilities, which number approximately 6,700 "firms" with 6,700 employees.

The comparison to the distribution across Los Angeles County shows that Long Beach has a somewhat smaller share of very small firms than the county average, but is broadly similar in distribution.

Exhibit 2-8
Distribution of Firms and Employment by Firm Size (2014)

Number of Employees	Number of firms	% of all firms in Long Beach	Approximate # of employees	Approximate % of all employees		*% of all firms in Los Angeles County*
1 to 4	4,480	53.7%	11,200	7.6%		*59.8%*
5 to 9	1,500	17.9%	11,220	7.7%		*16.2%*
10 to 19	1,070	12.8%	15,520	10.6%		*11.1%*
20 to 49	790	9.4%	27,120	18.5%		*8.0%*
50 to 99	270	3.2%	19,890	13.6%		*2.8%*
100 to 249	190	2.3%	32,981	22.5%		*1.5%*
250 to 499	31	0.4%	11,610	7.9%		*0.4%*
500 to 999	10	0.1%	6,000	4.1%		*0.1%*
1,000 or more	10	0.1%	11,000	7.5%		*0.1%*
TOTAL	8,340	100.0%	146,530	100.0%		*100.0%*

SUMMARY

Our review of demographic and employment data for the City of Long Beach in comparison to Los Angeles County shows:

- The median age in Long Beach is 34 years
  - The population of Long Beach is somewhat younger than the county overall
  - Approximately 70 percent of the residential population in Long Beach is of working age

- Median household income in Long Beach was $54,511 in 2014, compared to the County median of $55,746
  - Almost 47 percent of households earn less than $50,000 per year, and 12.2 percent earn over $150,000

- Long Beach's working residents are employed in a variety of occupations, quite similar to the occupational distribution of all workers across the county

- Regional dynamics of the labor market are demonstrated by commuting patterns of residents and workers:
  - Approximately 26 percent of Long Beach working residents hold jobs in the City of Long Beach—the remaining working residents commute to jobs outside of Long Beach
  - Of all payroll jobs located in the City of Long Beach, approximately 23 percent are held by residents of Long Beach—the remaining workforce commutes into Long Beach from other cities and counties

EXPECTED IMPACT IN LONG BEACH

In order to estimate the potential impact in Long Beach of an increase in the minimum wage, a schedule of proposed increases is needed. As the Long Beach City Council has not proposed such as schedule, for the purposes of this section, we assume that Long Beach will consider a policy consistent with that adopted by the City of Los Angeles and by the Los Angeles County Board of Supervisors. Should the City Council adopt a schedule that has smaller increases or that provides for a longer implementation period, the impacts estimated here will overstate actual potential impacts.

The schedule is shown in Exhibit 2-9. The current minimum wage is $9.00 per hour, determined at the state level. The first increase will occur in January 1, 2016, according to CA state law mandating an increase to $10 per hour. Coupled with the potential increase to $10.50 in July, 2016, this raises the wage by 16.7 percent over the prior year. The increase to $12.00 and $13.25 in 2017 and 2018, respectively, represent additional significant increases of 14.3 percent and 10.4 percent over a twelve month period each.

Over the next five years, this schedule proposes an increase in the minimum wage of 66.7 percent over the current wage.

Exhibit 2-9
Final Proposed Minimum Wage Schedule for the City of Los Angeles

Effective Date	Hourly Wage	% increase over prior step
Current (11/1/2015)	$9.00	
Jan 1, 2016 (CA state law)	$10.00	11.1%
July 1, 2016 *	$10.50	5.0% (16.7%*)
July 1, 2017	$12.00	14.3%
July 1, 2018	$13.25	10.4%
July 1, 2019	$14.25	7.5%
July 1, 2020	$15.00	5.3%
July 1, 2021 and each July 1 thereafter	Annual increases based on CPI	

* Incorporates state mandated increase to $10 effective Jan 1, 2016

It is clear that a large slice of workers will be potentially impacted. As each step up in the wage is reached, more workers will be impacted as their wages fall below the new minimum.

Using a methodology that is fully described in the Appendix, we estimate the number of workers that would be affected during the next five years, the percentage of the job holders in Long Beach that this represents, the average increase in wages, and the overall increase in the wage bill. These results are shown in Exhibit 2-10.

Exhibit 2-10
Cumulative Impacts on Job Holders Due to Minimum Wage Increases

	2017	2020
Proposed Hour Wage Rate	$12.00	$15.00
Number of Job Holders Impacted (Cumulative)	32,920	45,750
Percent of Job Holders Impacted (Cumulative)	18.5%	25.4%
Average Increase in Hourly Wage (Cumulative)	$0.51	$2.74
Average Annual Increase in Earnings (Cumulative)	$ 940	$ 5,160
Average Percent Increase in Earnings (Cumulative)	3.8%	6.2 %
Total Aggregate Increase in Wage Bill (Cumulative) ($ millions)	$ 30.9	$ 236.1

Source: Authors' analysis of ACS data

By 2017, approximately 32,920 job holders will be directly and indirectly affected. The policy will encompass very larger numbers of job holders such that by 2020, more than 45,750 workers in Long Beach will be impacted – *assuming there are no reactive job cuts, hours reduction or other business-related consequences that would affect existing jobs.*

The percentage of all job holders in Long Beach will grow from 18.5 percent in 2017 to 25.4 percent by 2020.

Although the minimum wage increases are between $0.50 and $1.50 each step, the average increase in hourly wages will be from $0.38 in 2017 to $3.34 by 2020. On average, annual earnings for workers increase by $940 in 2017 and $5,160 in 2020.

The total aggregate increase in wages paid to all employees in Long Beach is estimated to be $30.9 million in 2017 and $236.1 million in 2020.

This analysis makes a number of assumptions to forecast into 2020. These are discussed in the Appendix, however, it should be noted here as well that these estimates assume that there is no change in the demographic makeup of workers in Long Beach, and no change in the mix and size of industries in the city. Both of these assumptions may hold for the next few years but the longer the horizon, the less confidence we have in these assumptions.

Further, it is assumed for the purposes of these estimates that employers in Long Beach *take no action in response to the new wage policy.*

It should also be noted that the estimates include only wages and do not address other wage-related costs, such as payroll taxes, benefits and workers compensation. While the wage bill represents a

potential transfer of funds from firms to workers, one can expect that there would be additional transfers from firms to governments related to the wage bill, and from consumers (and workers) to firms as a result of rising prices.

Using the same data and methodology, we can estimate the characteristics of the workers that are likely to be affected. These are shown in Exhibit 2-11.

Exhibit 2-11
Descriptive Statistics of Affected Job Holders in 2017 and 2020

	Characteristics of the Working Population	Number of Affected Workers in 2017	Percent of cohort affected in 2017	Number of Affected Workers in 2020	Percent of cohort affected in 2020
TOTAL		32,920	18.5%	45,750	25.4%
Gender:					
Female	43.6%	17,480	22.5%	24,270	30.8%
Male	56.4%	19,100	19.1%	26,570	26.1%
Marital Status:					
Not Married	53.5%	21,890	23.0%	29,830	30.9%
Married	46.5%	14,690	17.8%	21,020	25.1%
Race / Ethnicity:					
Non-Hispanic White	38.7%	8,250	12.0%	10,390	14.9%
Non-Hispanic Black	10.7%	2,680	14.0%	3,960	20.4%
Non-Hispanic Asian	2.8%	450	9.1%	560	11.1%
Other	19.7%	10,280	29.4%	14,280	40.2%
Hispanic, All Races	28.1%	15,160	30.4%	22,250	44.0%
Age:					
Under 18	0.5%	715	89.3%	725	89.3%
18-24	10.3%	6,420	35.2%	8,840	47.8%
25-34	20.9%	9,750	26.2%	13,450	35.7%
35-44	19.3%	4,570	13.3%	6,560	18.8%
45-64	34.6%	9,740	15.8%	13,930	22.3%
65 and older	14.5%	1,720	6.7%	2,240	8.6%
Median Age:	41years				
Education:					
Less than HS	12.6%	10,530	47.1%	13,860	61.1%
HS Credential	27.6%	10,860	22.1%	15,250	30.7%
Some College	29.0%	8,640	16.7%	13,320	25.4%
Associate's	19.6%	5,990	17.2%	7,300	20.6%
BA or Higher	11.2%	610	3.1%	1,170	5.8%
Family Income Relative to Federal Poverty Level (FPL):					
Under 138% of FPL	10.9	7,990	41.3%	10,890	55.5%
Between 139 and 213% of FPL	12.9	10,070	44.0%	12,970	55.9%
Above 214% of FPL	76.3	14,850	11.0%	21,890	15.9%

Source: Authors' analysis of ACS data

In 2017, when the hourly wage reaches $12.50, approximately 32,920 workers will be affected, either directly as their wage falls below the new minimum or indirectly through wage compression as their wage is increased to keep a step above the minimum.

Most of the workers that are likely to be affected are adults between 21 and 64 years of age. Approximately 65 percent have a high school credential or less, but many workers have had some college education or achieved an Associate's degree. Approximately 24 percent have a family income less than 138 percent of the FPL, a threshold commonly used to determine benefits.

The higher wage level reached in 2020 will encompass larger numbers of workers. More than 45,700 workers will be affected either directly or indirectly.

The age variable deviates markedly from the common belief that minimum wages are typically paid to teenagers. This could be a consequence of the higher premium being considered over the current minimum wage, but it could also be a consequence of the higher proportion of all workers in Long Beach that are minimum wage workers.

The proportion of affected workers that are teens may be an important statistic because much of the literature investigating the employment impacts of minimum wage policies examines teen workers (often used as a proxy for the least skilled). In the samples we are reviewing, however, teen workers are not representative of the affected workforce here.

Also in Exhibit 2-11, we show the proportion of all workers with each characteristic that will be affected by the minimum wage ordinance. For example, of workers aged 25 to 34 years, 26.2 percent will be affected by the proposed ordinance in 2017. At the $15.00 wage proposed for 2020, the share rises to 35.7 percent.

These values shown are *cumulative*. The example is therefore interpreted as 35.7 percent of workers aged 25 to 34 years would be affected in 2020 by an increase from $9.00 to $15.00.

Still, these must be interpreted as rough estimates as demographic and industry distributions are assumed to remain unchanged over the next five years, an assumption that may not hold. It is also assumed that there are no reactive employment reductions due to the minimum wage increase.

Industries that employ higher proportions of minimum wage workers are most likely to be most impacted. The industry distribution of affected workers is shown in Exhibit 2-12.

It is clear that several industries will be more impacted than others. By 2017, for example, almost 30 percent of workers in the construction industry, 28.7 percent of workers in wholesale trade, 31.8 percent of workers in retail and 44.4 percent of workers in arts, entertainment and recreation will be affected. As the minimum wage increases, more job holders in these industries will be affected, either directly as their wages fall below the new minimum or indirectly as their wages are raised in step with those earning less.

Other industries that will be significantly affected are administrative support and waste management, health care and social assistance and accommodation and food services.

Exhibit 2-12
Industry Distribution of Affected Job Holders in 2017 and 2020

	Industry of the Working Population	Number of Affected Workers in 2017	Number of Affected Workers in 2020	Percent of cohort affected in 2017	Percent of cohort affected in 2020
Utilities	0.9	50	50	3.2%	3.2%
Construction	4.8	2,500	3,770	29.6%	44.1%
Manufacturing	9.0	1,560	2,510	9.7%	15.4%
Wholesale Trade	3.3	1,700	2,140	28.7%	35.5%
Retail Trade	8.0	4,510	6,500	31.8%	45.2%
Transportation and Warehousing	9.4	1,990	2,760	11.8%	16.2%
Information	1.4	-	60	-	2.3%
Finance and Insurance	4.2	750	1,780	10.0%	23.4%
Real Estate and Rental and Leasing	2.3	360	620	8.9%	15.2%
Profession, Scientific and Technical Services	6.1	1,900	2,330	17.4%	21.0%
Administrative Support and Waste Management	3.1	1,610	2,050	29.5%	37.0%
Educational Services	10.4	2,500	3,360	13.5%	18.0%
Health Care and Social assistance	18.4	7,930	10,500	24.2%	31.6%
Arts, Entertainment and Recreation	1.2	940	1,050	44.4%	49.1%
Accommodation and Food Services	8.2	5,720	7,950	39.2%	53.7%
Other Services	3.8	2,130	2,530	31.2%	36.6%
Public Administration	4.5	360	570	4.5%	7.0%

Source: Authors' analysis of ACS data

The discussion in this section has focused on estimating the number of workers in Long Beach that will be impacted by higher minimum wages either directly or indirectly through wage compression. These estimates assume that employers take no action to accommodate increased labor costs, such as reducing hours or jobs, reducing other costs, raising prices (which may impact their sales) or any other measures that firms might take. In other words, the estimates above reflect a "best case" scenario.

A more dynamic view would be to incorporate potential employer responses to increased labor costs. While this is beyond the scope of this study, it may be helpful to note that as a "worst case" scenario, those employees who would be *directly* impacted by higher wages would also be those most at risk of being negatively impacted through reduced hours, job loss or substitution. The number of directly affected workers in 2017 and 2020 is shown in Exhibit 2-13.

Exhibit 2-13
Directly Affected and Indirectly Affected Job Holders in 2017 and 2020

	Affected Workers in 2017	Affected Workers in 2020
TOTAL	32,920	45,750
Directly affected	14,030	20,720
Indirectly affected	18,890	25,030

Source: Authors' analysis of ACS data

SUMMARY

The minimum wage policy adopted by the City of Los Angeles delineates an increase of 66.7 percent over the current wage to occur over the next five years. If a similar policy were implemented in Long Beach:

- A large slice of workers would potentially be impacted:
  - By 2017, approximately 18.5 percent of all workers in Long Beach, or 32,920 job holders, would be affected, either directly as their wage falls below the new minimum, or indirectly as their wage is increased to keep a step above the minimum
  - By 2020, approximately 25.4 percent of all workers in Long Beach, or 45,750 job holders, would be impacted

- In a "best case" scenario, assuming there are no reactive job cuts, hours reductions or other business-related consequences that would affect existing jobs:
  - Annual earnings for workers will increase by an average of $940 in 2017 and $5,150 in 2020
  - The total aggregate increase in wages paid to all employees in Long Beach is estimated to be $30.9 million in 2017 and $236.1 million in 2020

- In a "worst case" scenario, where the potential responses of employers to increased labor costs are incorporated into the analysis:
  - Employees that would be directly affected by higher wages would also be most at risk of negative consequences such as reduced hours, job loss or substitution
  - In 2017, approximately 14,030 job holders would be directly affected
  - In 2020, this number would grow to 20,720 workers

- Most of the workers that are likely to be affected either directly or indirectly are adults between 21 and 64 years of age
  - Approximately 65 percent have a high school credential or less, but many workers have had some college education or achieved an Associate's degree
  - Approximately 24 percent have a family income less than 138 percent of the Federal Poverty Level, a threshold commonly used to determine benefits

- Several industries will be more affected than others
  - By 2017, approximately 44 percent of workers employed in arts, entertainment and leisure industries, 31.8 percent of retail trade workers, 30 percent of workers in the construction industry and 28.7 percent of workers in wholesale trade will be directly or indirectly affected
  - Other industries that will be significantly affected are administration support and waste management, health care and social assistance and accommodation and food services

PART 3: THE COMMUNITY SPEAKS

Once the Long Beach City Council decided to research the potential implications of a minimum wage policy in the city, it decided to engage the public by scheduling a number of public meetings at which the public could provide their thoughts and concerns regarding the issue. Three meetings were scheduled in advance of the release of this study to enable the LAEDC to hear the voices of the community. Three additional public meetings were scheduled to take place after release of the study to enable community members to digest the study's findings and make comments.

This section summarizes many of the comments heard at the first three forums. Approximately 50 speakers took the opportunity to share their thoughts, and an additional eight community members participated in the Mayor's Roundtable. Of all speakers, just more than half were business owners or organizations in support of business owners' concerns. The remaining speakers were workers, members of the faith-based community and community organizers sympathetic to the concerns of workers.

MUNICIPAL LEADERS SPEAK

At the outset, Mayor Garcia and all City Councilmembers expressed their clear desire to have an open, balanced and collaborative process with the community, and to allow all voices to be heard.

Several Councilmembers raised the following issues to be addressed regarding a minimum wage policy in Long Beach:

- Will small businesses be heard?
- How will younger earners be impacted?
- Can unintended (negative) consequences be avoided?
- Will the survey of businesses be representative of all Long Beach businesses?
- Will all regions of the city be represented, and not just those "south of the 405"?
- How can we determine what is the appropriate wage level?
- What kinds of exemptions should we consider?
- Can we determine the full burden that is to be placed on businesses?
- Are there ways to lessen this burden so we can retain well-paying jobs in Long Beach?

EMPLOYEES AND WORKERS SPEAK

Many of the workers that spoke at the public forums shared their personal stories of hardship, and spoke of how a minimum wage increase would change their lives for the better.

Among the most frequently mentioned concerns were:

- Wage theft is a serious and ongoing problem
- Any policy will need enforcement
- Misclassification of workers is a serious problem
- In addition to higher wages, workers need paid sick days
- The cost of living in Long Beach is high, and wages are insufficient
- Many minimum wage workers are on public assistance
- Wage increases have been few and far between, many not having had an increase in many years
- This is part of a national movement
- Issues related to the port, trucking and misclassification or using a staffing agency
- Retaliation against employees who file wage claims
- Higher wages will afford many the opportunity to spend more time with their family rather than needing to work more hours
- Raising wages will boost local spending
- Large corporations earn high profits yet their employees are on public assistance because their earnings are so low
- If a neighboring city has a higher minimum wage, that would be a jobseeker's first choice
- Many families in Long Beach live in poverty

The term "wage theft" as now being used refers to the failure of an employer to comply with the terms and conditions of the California Labor Code governing the wages paid and benefits to employees. It is a term used to refer to several common violations or failure to comply, including: not paying workers for all hours worked; failing to comply with regulations governing overtime work; failing to comply with regulations governing break times; and misclassifying employees to avoid dealing with rules governing the employee and employer relationship.

BUSINESS OWNERS SPEAK

Business owners spoke about their concerns as cost increases will impact their business, their profits and their employees. Many expressed empathy with the plight of the poor and were sympathetic to the lack of wage growth expressed by several workers. Several provided detailed calculations of how a proposed minimum wage increase would impact their costs and their bottom line.

Among the most frequently mentioned concerns were:

- Raising prices and becoming uncompetitive
- Exemptions, waivers or other mitigation strategies targeting for teens, new hires and those difficult to employ (such as ex-offenders) will be needed otherwise these groups will be sidelined at a higher minimum wage
- Firms that violate labor codes are a problem for law-abiding businesses as well
- Increasing the minimum wage causes many other costs to increase as well
- Many employees do not live in Long Beach, hence the potential boost in local spending due to increased earnings will leak to other cities
- Restaurants operate on very thin profit margins
- Tipped employees already earn well above the minimum wage
- Firms are already moving out of Long Beach
- Employees will need to reduce their hours
- Some firms will not be able to raise prices because of regional competition or because their customers are on fixed incomes
- Some organizations will not be able to reduce staff without cutting service
- Non-profits have fewer options, particularly if they are reimbursed by statutory rates
- Employers will prefer skilled workers over new job entrants, when given the choice
- Nonprofits have limited ability to raise prices as their “income” is based on fixed reimbursement rates, meaning increased costs must lead to reduced service
- The home health care and senior services industry needs special consideration given its funding and reimbursement model
- Small business owners are not so different than their employees
- Minimum wage policy should be a regional or state issue to level the playing field

PART 4: BUSINESS SURVEY

We report the findings of an independently-conducted survey commissioned by the LAEDC. This survey was conducted by Market Enhancement Group, Inc. (MEG).

The survey was conducted via telephone interview during normal business day hours on an appointment basis. Respondents were offered confidentiality as to their individual responses and identity. The LAEDC was not disclosed as the sponsor of the survey.

Survey respondents were selected on a random probability basis. The company reports that it achieved a completion rate of 74.2 percent of all organizations who were contacted.

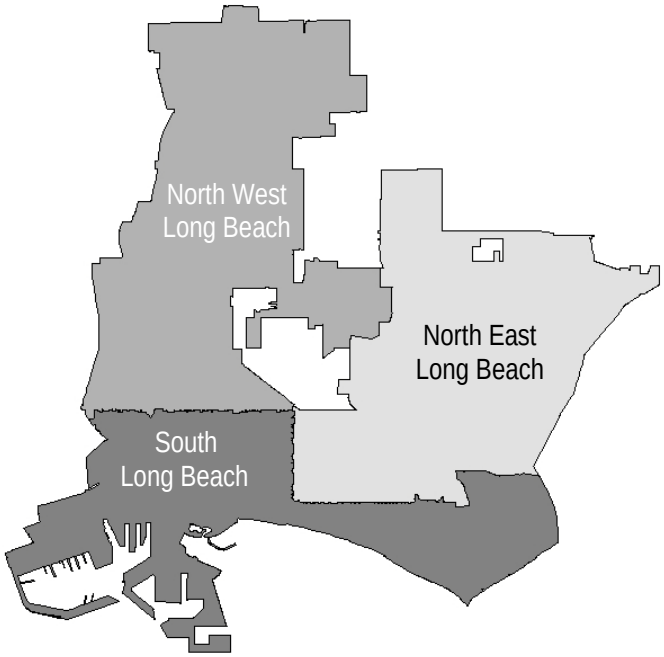
Six hundred surveys were completed in October 2015. The data is subject to a maximum sampling error of +/- 4.1 percent, and results are statistically significant at a 95 percent confidence level.

The survey consisted of twenty-three questions, which were designed jointly by MEG and the LAEDC. The complete survey instrument is provided on the following pages, followed by an exposition of the responses.

The company notes that the survey measures respondents' perceptions, which may or may not be factual.

The survey was segmented as follows:

	Survey Completions
By Size of Firm:	
1 – 19	200
20 – 99	200
100 or more	200
TOTAL Completions	600
By Geographic Region:	
South Long Beach	200
NW Long Beach	200
NE Long Beach	200
TOTAL Completions	600



MINIMUM WAGE SURVEY INSTRUMENT

Preamble:
As you may be aware, the Long Beach City Council at its September 15th meeting voted to authorize a study of the potential impacts of a minimum wage hike in Long Beach. The current minimum wage in Long Beach is $9.00 an hour, set by state law, which will increase to $10.00 an hour in January. Both the City of Los Angeles and the County of Los Angeles have passed minimum wage increases that would be to $10.50 next year, $12.00 the following year, $13.25 in 2018, $14.25 in 2019 and to $15 in 2020.

1. What percentage of your current workforce is paid the current minimum wage?

2. What additional percent of your current workforce is paid above the minimum but below $13.25?

3. $13.25 to below $15.00?

(If Q1.>0 then ask: Q4-Q6)
4. Of your minimum wage workers, what percentage are full-time workers?

5. Of your minimum wage workers, what percentage are seasonal or temp workers?

6. Of your minimum wage workers, what percentage are teenagers?

7. If the minimum wage is increased as proposed, what will happen to your overall labor costs?
   1=They will decrease
   2=They will remain about the same
   3=They will increase
   4=Don't know/unsure

If the minimum wage is increased as proposed, please rate the likelihood of each of the following on a 5-point scale, where "5" is very likely, "3" is neither likely nor unlikely, and "1" is not at all likely. *(Read – Rotate Order – Q8-Q22)*

8. Your minimum wage workers will be happier at work and probably do a better job because they are being paid more

9. You will sell more goods or services because your customers will now have more pay

10. You will reduce the number of your existing minimum wage employees

11. You will reduce the hours of your existing minimum wage employees

12. You will require current employees to take on additional duties

13. You will invest in labor-saving or labor-replacing devices or processes

14. Your costs of employee turnover will decrease because employees will be less likely to quit

15. You will ask your customers to pay more for your goods or services to cover your increased labor costs

16. Your profits will increase

17. You will move your business to a community with a lower minimum wage

18. You will have to close your business

19. You will increase the minimum wages you pay to match those paid in other cities or regions nearby

20. You will increase the minimum wages you pay at least somewhat to compete with those paid elsewhere

21. You will lose your minimum wage or lower-paid employees to other areas that pay higher minimum wages

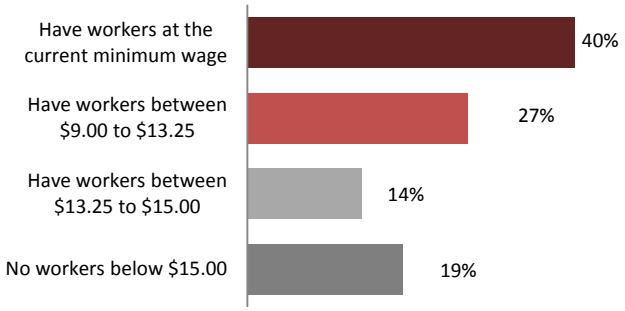
22. You will raise the price of your goods and services to match those charged in areas that pay higher minimum wages

23. In any case, any changes you make will occur *(Read)*
    1 = Immediately
    2 = Within 6 months, before the state minimum wage increase kicks in
    3 = Within one year, before the $12.00 rate is implemented
    4 = Within two years, before the $13.25 rate is reached
    5 = I'll wait and see/Don't know/No changes

SURVEY RESULTS

The LAEDC survey was administered to randomly-selected businesses in the City of Long Beach, soliciting employers' opinions as to how they would respond to the proposed minimum wage increases. Completed responses numbered 600. To learn about the extent of coverage of the proposed policy, several questions were asked of employers about their current workforce. Additional questions asked about their prospective reactions to changes in the minimum wage law.

QUESTIONS 1-3:
Do you currently have minimum wage workers?



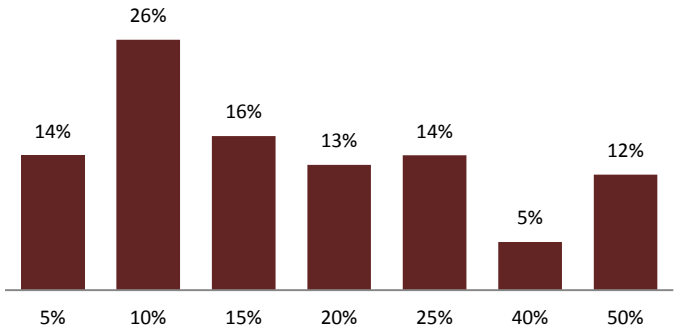
Results derived from the number of employers answering "no" to the three survey questions. Sampling error +/- 4.1%.

WHAT THIS TELLS US:

Approximately 40 percent of all employers will be impacted by any change to the minimum wage law. Approximately 20 percent of all firms have no workers earning less than $15.00 per hour.

The remaining 40 percent of firms employ workers above the minimum but below $15.00 per hour. These firms will be directly impacted by changes to the minimum wage law over time.

QUESTION 1a: If you have minimum wage workers ...
What percentage of your current workforce is paid the current minimum wage?



The mean response of those who currently have minimum wage workers was 19.6 percent. Sampling error +/- 4.1%.

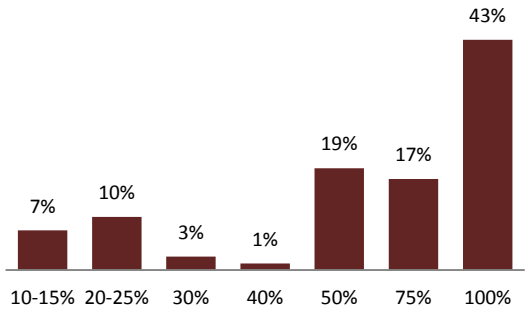
WHAT THIS TELLS US:

Of employers who report having minimum wage employees, forty percent say these employees account for ten percent or less of their workforce.

A small number of employers (12 percent) report that half of their workforce is minimum wage workers.

The overall mean response of these employers was 17.9 percent.

QUESTION 4: Of your minimum wage workers ...
What percentage are full-time workers?



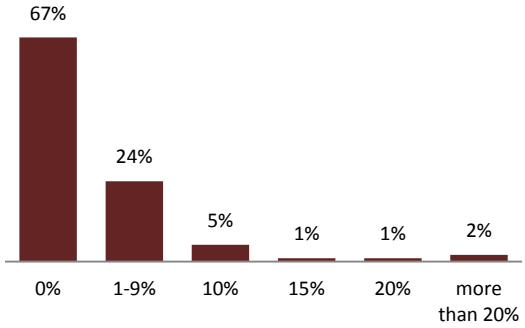
The mean response of those who currently have minimum wage workers was 69.7 percent. Sampling error +/- 4.1%.

WHAT THIS TELLS US:

Of employers who report having minimum wage employees, most of these workers are full-time employees.

The overall mean response of these employers was 69.7 percent.

QUESTION 5: Of your minimum wage workers ...
What percentage are seasonal or temp workers?



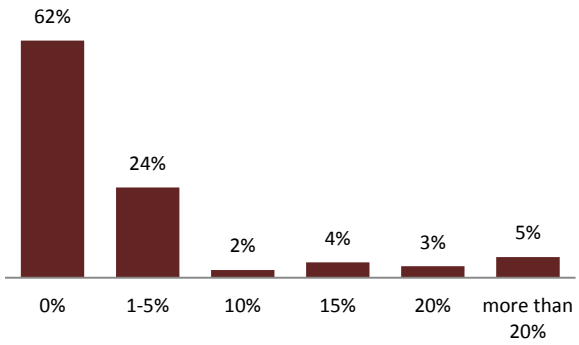
The mean response of those who currently have minimum wage workers was 2.2 percent. Sampling error +/- 4.1%.

WHAT THIS TELLS US:

Of employers who report having minimum wage employees, few of their minimum wage employees are temps or seasonal workers.

The overall mean response of these employers was 2.2 percent.

QUESTION 6: Of your minimum wage workers ...
What percentage are teenagers?



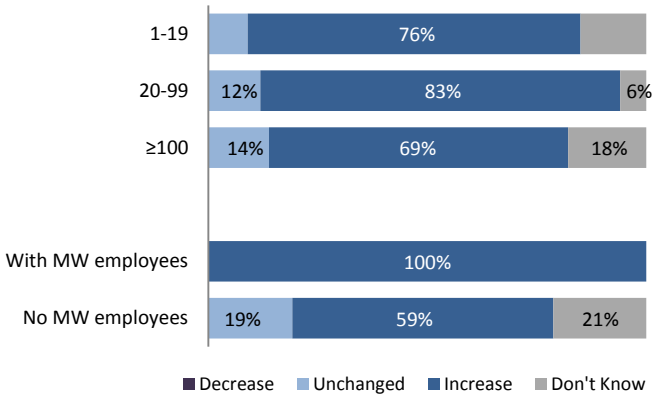
The mean response of those who currently have minimum wage workers was 4.1 percent. Sampling error +/- 4.1%.

WHAT THIS TELLS US:

Of employers who report having minimum wage employees, few of their minimum wage employees are teenagers.

The overall mean response of these employers was 4.1 percent.

QUESTION 7: If the minimum wage is increased ...
What will happen to your overall labor costs?



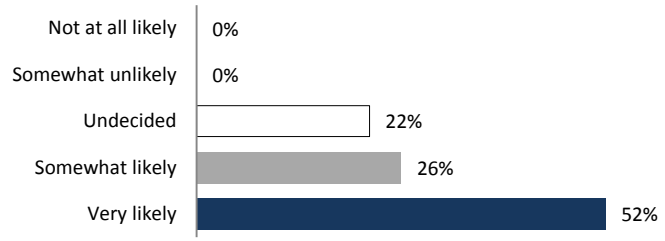
No employer anticipates a fall in labor costs.

WHAT THIS TELLS US:

Employers understand that raising the cost of labor will increase their overall labor costs. Even many of those without minimum wage employees believe that their labor costs will increase

Comments at the open forums reminded listeners that as wages increase, so do related costs such as benefits, payroll fees and taxes, and workers compensation costs. In addition, employees who are paid above the minimum wage will expect an increase in their wages to maintain a separation between pay steps.

QUESTION 8: What is the likelihood that ...
Your minimum wage workers will be happier at work and probably do a better job because they are being paid more?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.3.

WHAT THIS TELLS US:

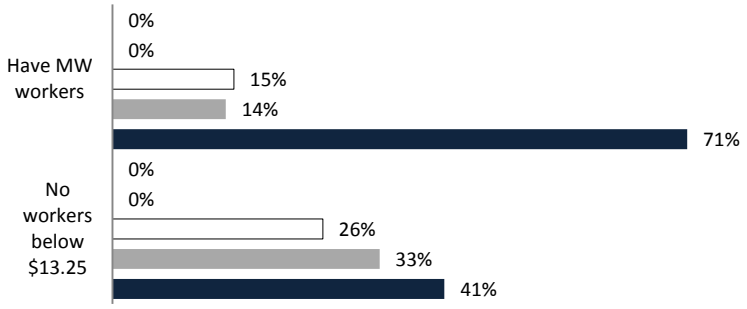
Approximately 78 percent of all respondents believe it is likely that their minimum wage employees will be happier and more productive.

Respondents with minimum wage workers are more likely to expect this, but even respondents without minimum wage workers believe that raising wages will induce better worker performance.

These findings are more pronounced for small businesses and for firms in South Long Beach.

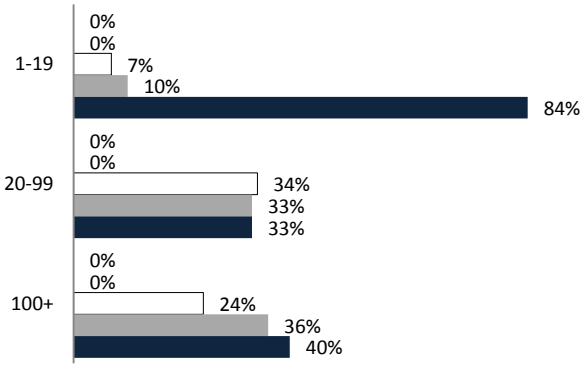
Few, if any, comments made at the open forums acknowledged this possibility, even among workers.

Employers of Minimum Wage Workers



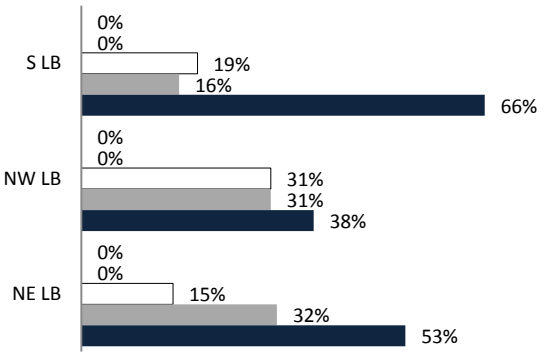
Mean responses were 4.6 and 4.2, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



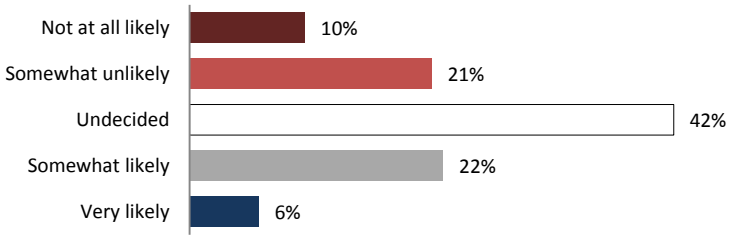
Mean responses were 4.8, 4.0 and 4.2, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 4.5, 4.1 and 4.4, respectively. Samping error of +/- 7.1%.

QUESTION 9: What is the likelihood that ...
You will sell more goods or services because your customers will now have more pay?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 2.9.

WHAT THIS TELLS US:

Approximately 28 percent of businesses believe it is likely that increased earnings of minimum wage employees will provide a stimulus to their firms, while 31 percent believe this is not likely.

A plurality of respondents is not sure if increased earnings will be a boon to their business.

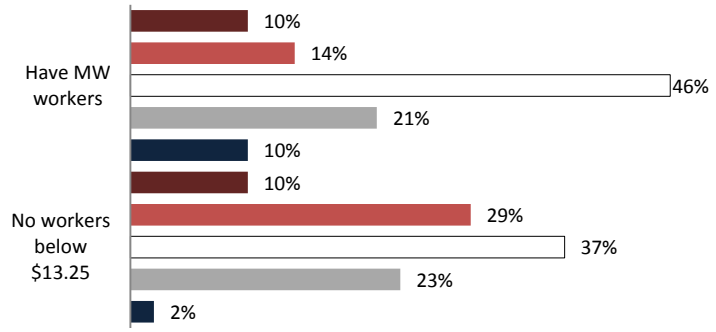
Comments at the open forums have expressed the idea that providing workers with more income will generate more spending; however, responses by firms across the categories are not consistent.

Less than a third of employers of minimum wage workers think it likely they will increase sales.

More than 40 percent of small businesses think it unlikely, as do 45 percent of businesses in South Long Beach.

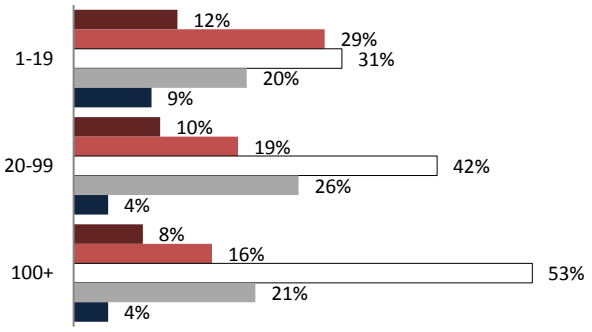
Most large businesses are undecided, as are businesses in northwest Long Beach.

Employers of Minimum Wage Workers



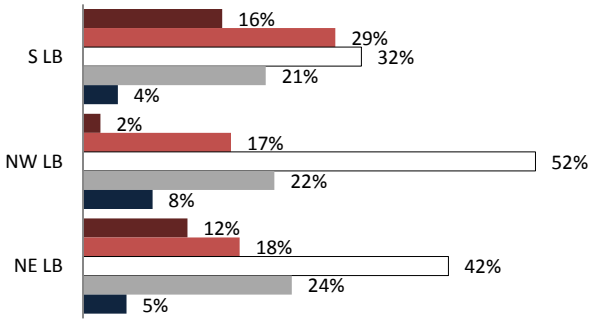
Mean responses were 3.5 and 2.8, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



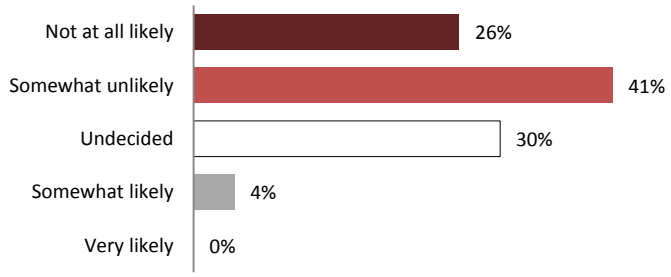
Mean responses were 2.9, 3.0 and 3.0, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 2.7, 3.2 and 2.9, respectively. Sampling error of +/- 7.1%.

QUESTION 10: What is the likelihood that ...
You will reduce the number of your existing minimum wage employees?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 2.1.

WHAT THIS TELLS US:

Overall, employers are unlikely to reduce their minimum wage staffing numbers. A full two-thirds of respondents say this is not likely, and only 4 percent consider it somewhat likely. Thirty percent are undecided.

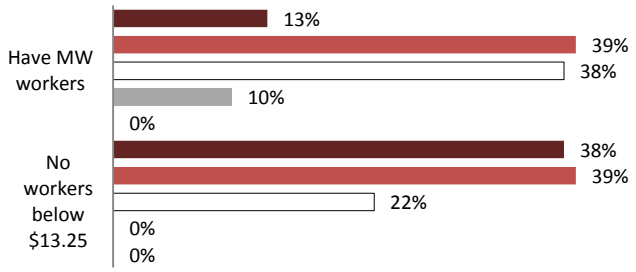
Ten percent of employers with current minimum wage employees say they will likely reduce their staffing levels, yet 38 percent are undecided.

Responses across business sizes are relatively similar, with thirty percent across all categories undecided. Firms in South Long Beach are less likely to consider this strategy.

These findings are not consistent with comments heard during the open forums, where business owners suggested this option as a way to reduce overall costs.

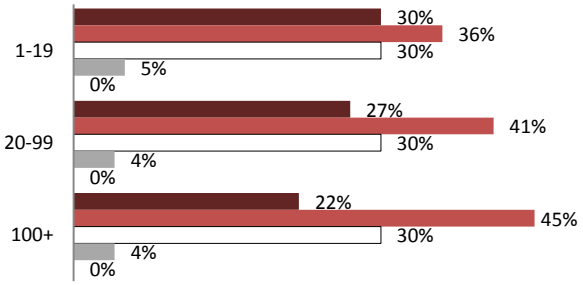
In some industries, it may be difficult to reduce staffing without simultaneously reducing service delivery, an option which may impact firms' profits as well and hence will be among the least favored strategies.

Employers of Minimum Wage Workers



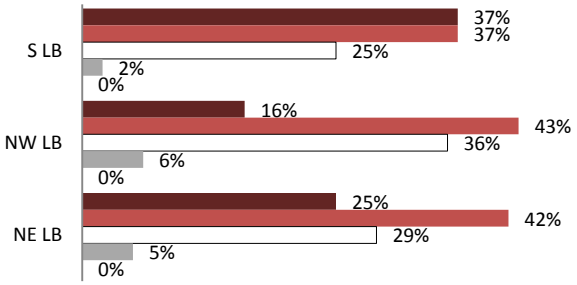
Mean responses were 2.8 and 1.8, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



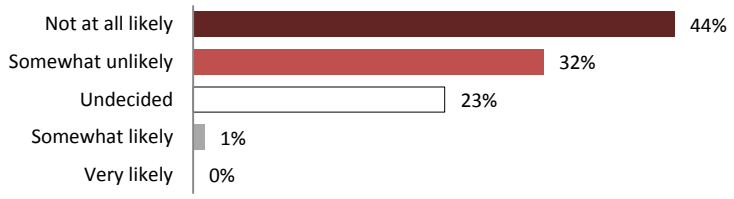
Mean responses were 2.1, 2.1 and 2.2, respectively. Sampling error of +/- 7.1%.

By Region



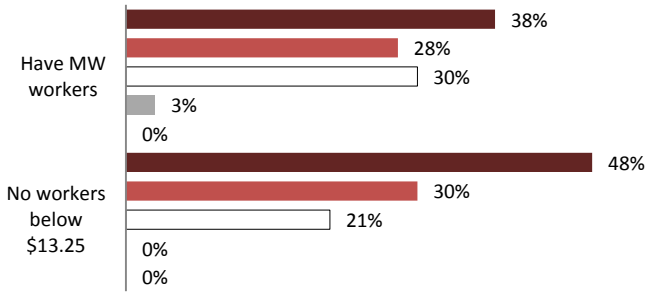
Mean responses were 1.9, 2.3 and 2.1, respectively. Sampling error of +/- 7.1%.

QUESTION 11: What is the likelihood that ...
You will reduce the hours of your existing minimum wage employees?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.8.

Employers of Minimum Wage Workers



Mean responses were 2.3 and 1.7, respectively. Sampling error of +/- 7.0%.

WHAT THIS TELLS US:

More than three-quarters (76 percent) of employers do not think it likely that they will cut the hours of their minimum wage workers. Almost one-fourth of respondents are undecided.

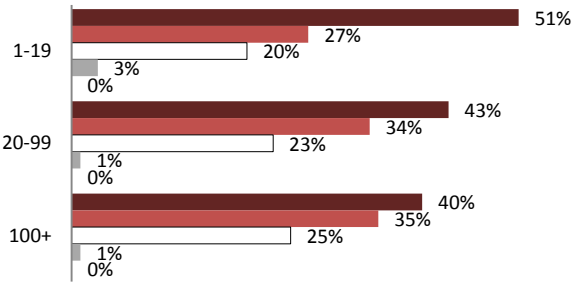
Employers of minimum wage workers are somewhat more likely to reduce the hours of their current minimum wage workers, but the differences are not significant. Many firms appear undecided on this strategy.

Responses by size of business show little variation and are not significant. Firms in South Long Beach are less likely to consider this an option than firms elsewhere.

These findings are in contrast to comments made during the open forums. Many business owners expressed their intention to cut hours of existing employees or hire fewer employees altogether.

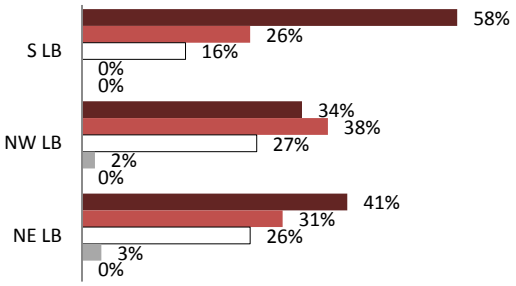
In some industries, it may be difficult to reduce hours without simultaneously reducing service delivery, an option which may impact firms' profits as well and hence will be among the least favored strategies.

By Size of Business (# of Employees)



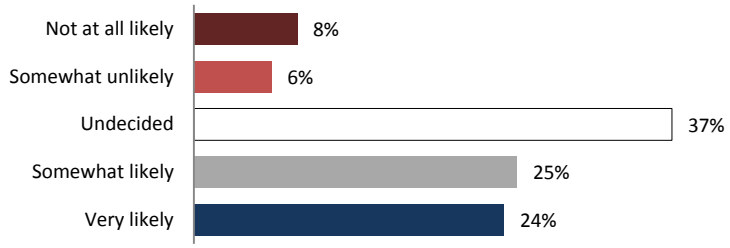
Mean responses were 1.7, 1.8 and 1.9, respectively. Samping error of +/- 7.1%.

By Region



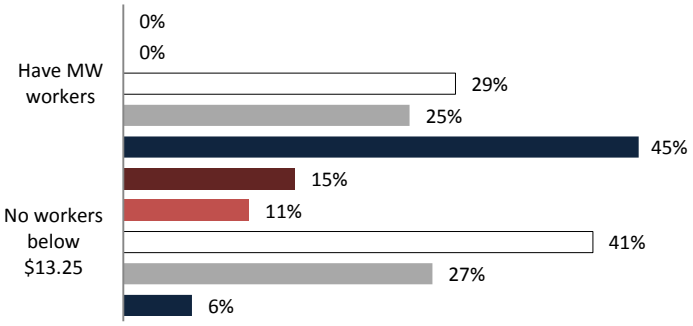
Mean responses were 1.6, 2.0 and 1.9, respectively. Sampling error of +/- 7.1%.

QUESTION 12: What is the likelihood that...
You will require current employees to take on additional duties?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 3.5.

Employers of Minimum Wage Workers



Mean responses were 3.6 and 3.0, respectively. Sampling error of +/- 7.0%.

WHAT THIS TELLS US:

Almost half of all respondents (49 percent) will expect their employees to work a bit harder, while 37 percent are undecided.

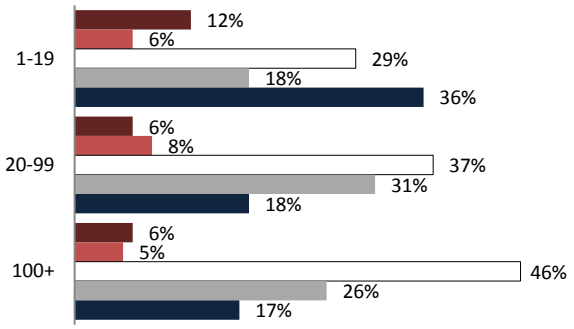
Employers of minimum wage workers are more likely to expect their current employees to work harder, probably because these same workers will be paid higher wages.

Employers without minimum wage workers are undecided, with a third thinking this might be likely but 26 percent thinking it not likely.

As small businesses have more minimum wage workers, their responses reflect a higher likelihood of adding duties to current employees.

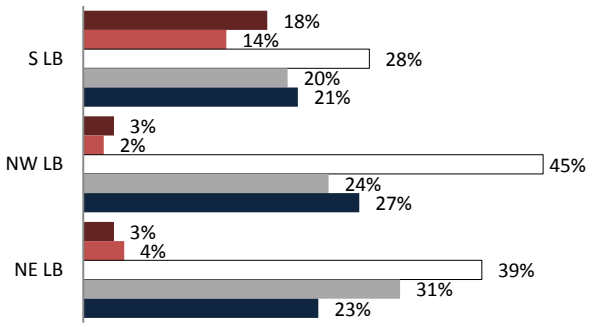
Interestingly, forty-three percent of large businesses think this likely although they are less likely to have minimum wage workers. This may simply indicate that in general, employers are going to expect all employees to do more in the future.

By Size of Business (# of Employees)



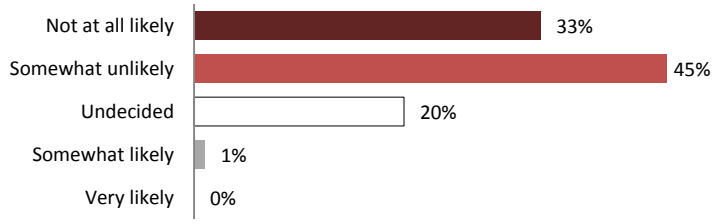
Mean responses were 3.6, 3.5 and 3.4, respectively. Sampling error of +/- 7.1%.

By Region



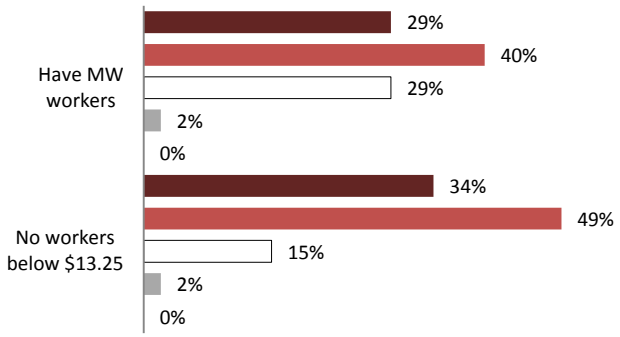
Mean responses were 3.1, 3.7 and 3.7, respectively. Sampling error of +/- 7.1%.

QUESTION 13: What is the likelihood that ...
You will invest in labor-saving or labor-replacing devices or processes?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.9.

Employers of Minimum Wage Workers



Mean responses were 2.3 and 1.8, respectively. Sampling error of +/- 7.0%.

WHAT THIS TELLS US:

This response speaks to firms' capital-labor substitution response.

Seventy-eight percent of respondents do not think this option is likely.

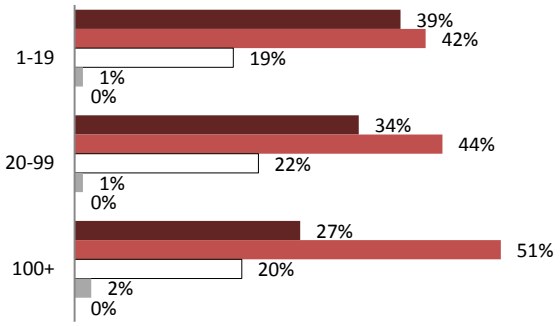
Employers of minimum wage employees were more likely to be undecided than those who will not be impacted for a few years, who are more likely to consider this as likely.

Differences among business sizes are not significant. There is a great deal of uncertainty here. This was reflected in the comments heard at open forums, where labor-saving automation was mentioned, but as subordinate to other adaptive strategies such as raising prices and employment reductions.

Differences among geographic regions were a matter of intensity of opinion between "somewhat" and "very."

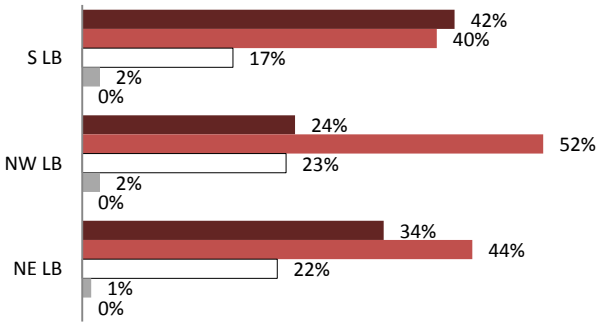
Very few respondents think that investment in labor-saving processes or devices is at all likely.

By Size of Business (# of Employees)



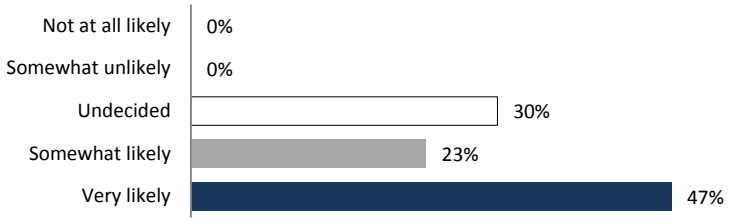
Mean responses were 1.8, 1.9 and 2.0, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 1.8, 2.0 and 1.9, respectively. Sampling error of +/- 7.1%.

QUESTION 14: What is the likelihood that ...
Your costs of employee turnover will decrease because employees will be less likely to quit?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.2.

WHAT THIS TELLS US:

About 70 percent of all respondents think it likely they will save in turnover costs because their employees are likely to stay put.

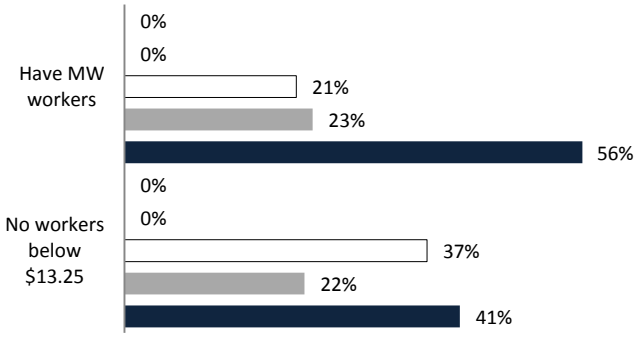
This is, of course, more likely for employers of minimum wage employees as their staff will be impacted immediately. Employers that are not immediately impacted are more undecided.

Similarly, small businesses believe this to more likely, while large businesses are more undecided.

Differences among the geographic regions of the city are not significant.

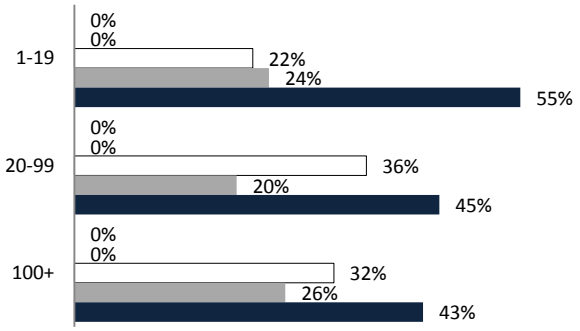
Interestingly, this was not a subject that was addressed at any of the open forums.

Employers of Minimum Wage Workers



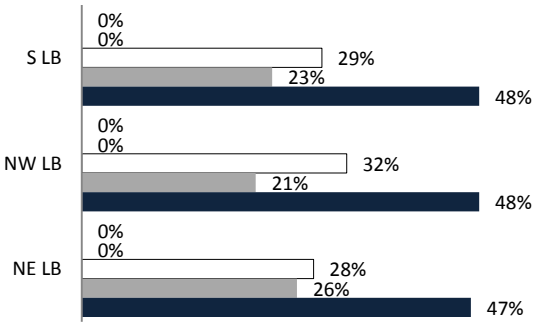
Mean responses were 4.2 and 4.0, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



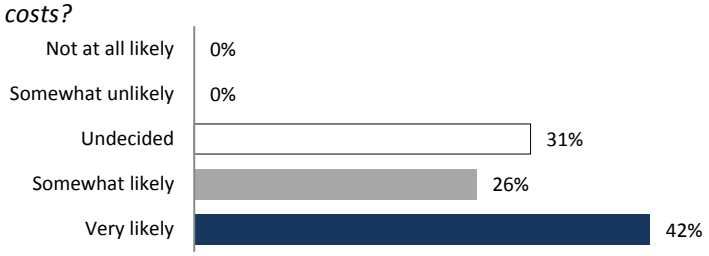
Mean responses were 4.3, 4.1 and 4.1, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 4.2, 4.2 and 4.2, respectively. Sampling error of +/- 7.1%.

QUESTION 15: What is the likelihood that ...
You will ask your customers to pay more for your goods or services to cover your increased labor costs?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.1.

WHAT THIS TELLS US:

Approximately 68 percent of respondents are likely to set their prices higher, while 31 percent are undecided.

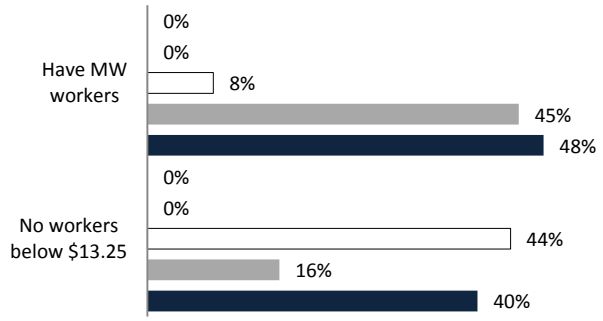
No respondent indicated that it was at all unlikely to happen.

These responses reflected many of the comments heard at open forums by business owners. With a limited number of options open to them in their adaptation strategies to higher labor costs, increasing prices was the most often mentioned one.

This was certainly more reflective of responses of employers of minimum wage workers. Those with more time to adjust were more likely to be undecided.

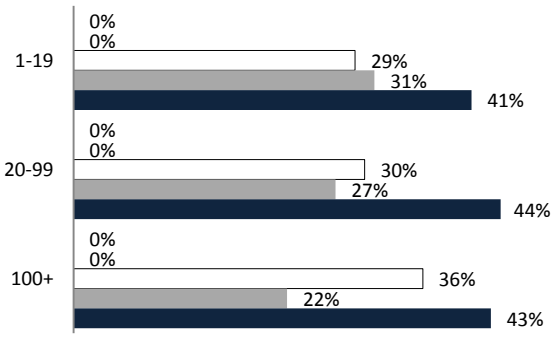
The differences among businesses size are not significant, nor among geographic regions. By and large, most employers expect to increase prices.

Employers of Minimum Wage Employees



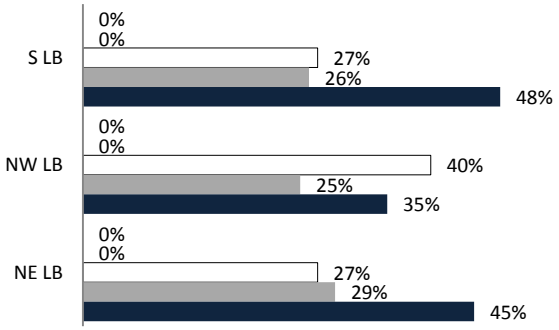
Mean responses were 4.4 and 4.0, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



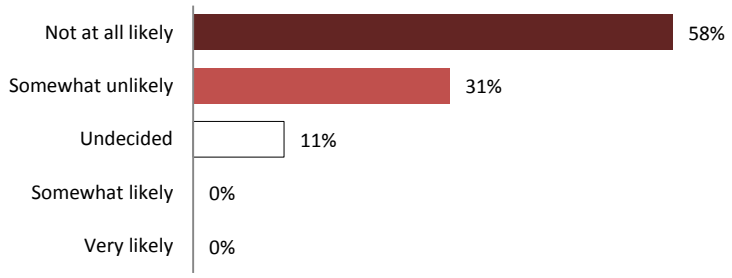
Mean responses were 4.1, 4.1 and 4.1, respectively. Sampling error of +/- 7.1%.

By Region)



Mean responses were 4.2, 3.9, 4.2, respectively. Sampling error of +/- 7.1%.

QUESTION 16: What is the likelihood that ...
Your profits will increase?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.5.

WHAT THIS TELLS US:

Almost 90 percent of businesses think it unlikely that their profits will increase.

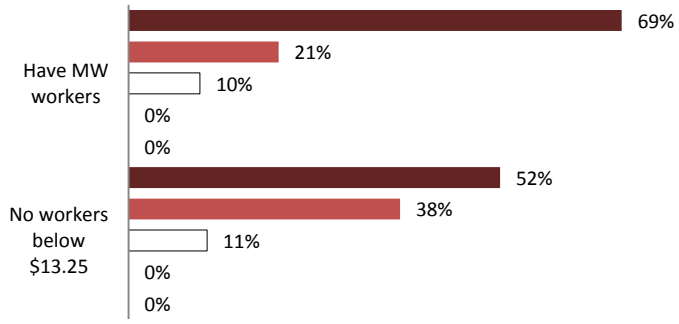
Employers of minimum wage workers are more certain, with 90 percent thinking this is unlikely.

This was reflected in the comments heard at the open forums where business owners expressed their possible responses to increased labor costs as a result of a city minimum wage policy Among their choices was a reduction in profits.

Small businesses are particular concerned about this possibility, as are respondents in South Long Beach.

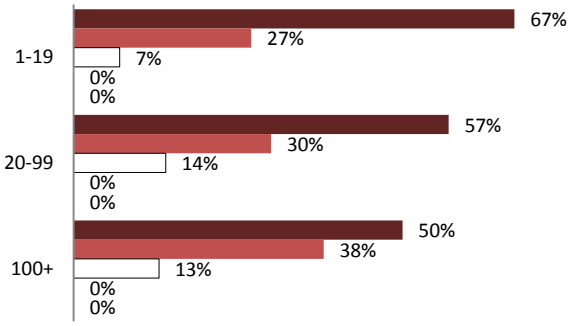
These differences have also been expressed at open forums, with small businesses noting that their options are more limited and tourism-related firms reacting similarly.

Employers of Minimum Wage Workers



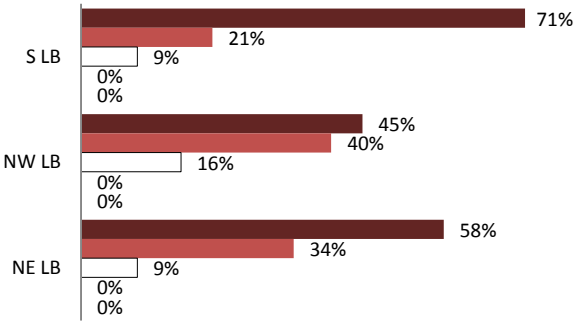
Mean responses were 1.5 and 1.6, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



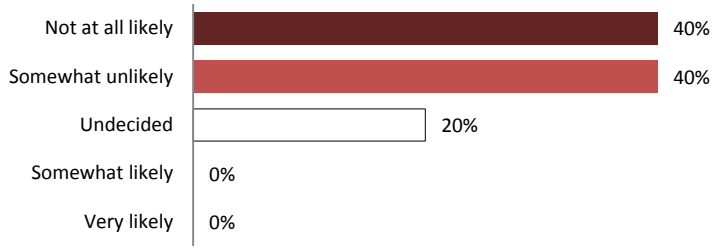
Mean responses were 1.4, 1.6 and 1.6, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 1.4, 1.7 and 1.5, respectively. Sampling error of +/- 7.1%.

QUESTION 17: What is the likelihood that ...
You will move your business to a community with a lower minimum wage?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.8.

WHAT THIS TELLS US:

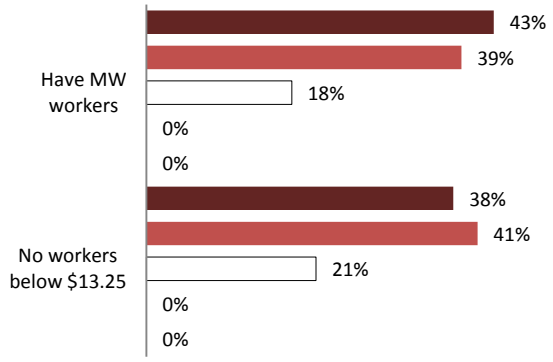
Approximately 80 percent of respondents do not think that relocation is likely. The remaining twenty percent are undecided. No business reported it likely that they would move their business to a community with a lower minimum wage.

Responses differ very little among the various types of respondents, but are least likely for small businesses (with fewer than 20 employees, and for respondents located in South Long Beach.

Relocation of operations simply does not seem to be a response that companies in Long Beach are considering.

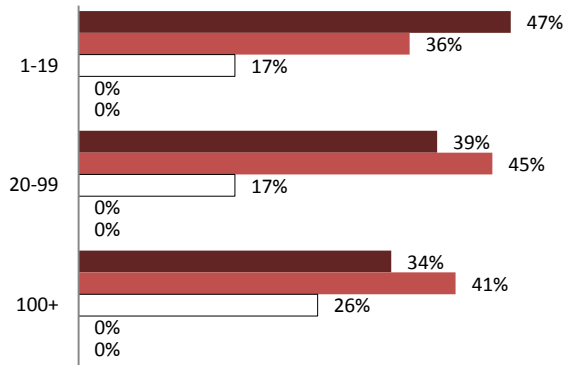
A single caution may be that there are a significant number of respondents that are undecided.

Employers of Minimum Wage Workers



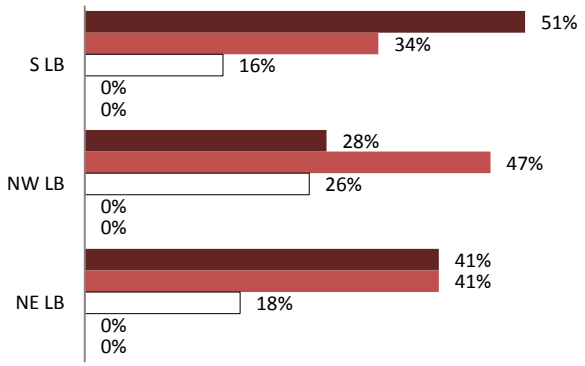
Mean responses were 1.9 and 1.8, respectiively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



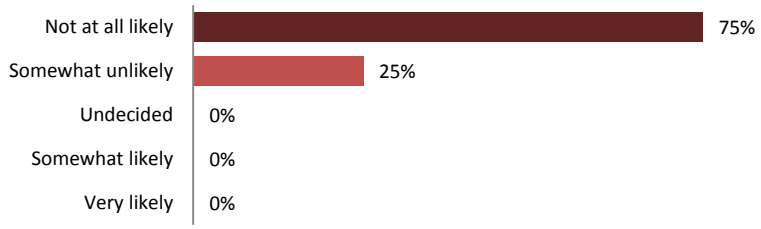
Mean responses were 1.7, 1.8 and 1.9, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 1.7, 2.0 and 1.8, respectively. Sampling error of +/- 7.1%.

QUESTION 18: What is the likelihood that ...
You will have to close your business?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 1.2.

WHAT THIS TELLS US:

In one of the most unambiguous results of the survey, employers in Long Beach do not expect to go out of business as a result of a minimum wage policy being implemented.

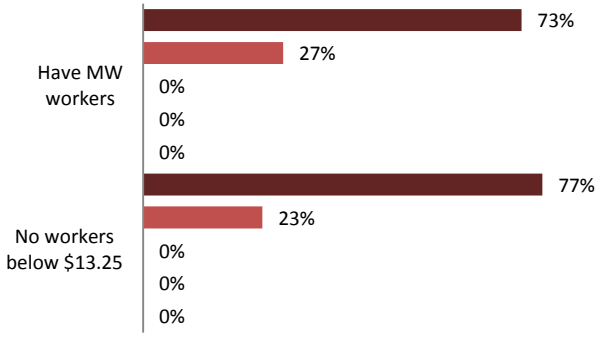
There was no difference in responses among those with minimum wage workers and those without such employees.

The differences in responses among business size categories and among geographic regions are not significant.

The differences in responses reflect confidence levels between "somewhat" and "very."

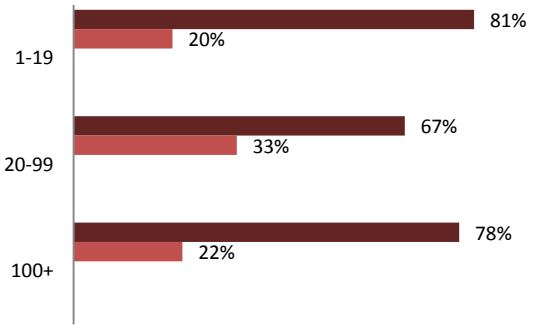
No respondent was undecided in this matter, which was raised as a possibility by several participants in the open forums.

Employers of Minimum Wage Workers



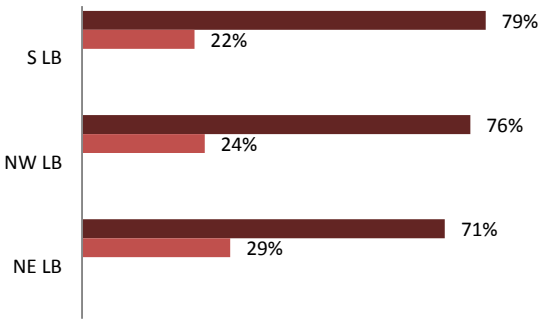
Mean responses were 1.4 and 1.2, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



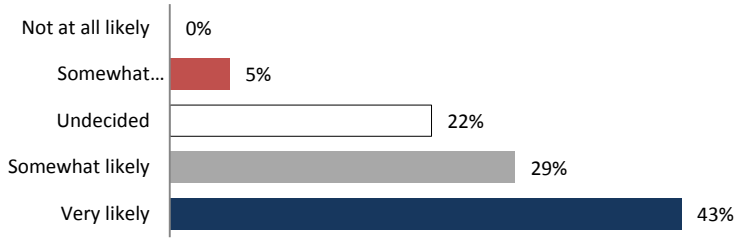
Mean responses were 1.2, 1.3 and 1.2, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 1.2, 1.2 and 1.3, respectively. Sampling error of +/- 7.1%.

QUESTION 19: What is the likelihood that ...
You will increase the minimum wages you pay to match those paid in other cities or regions nearby?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.1.

WHAT THIS TELLS US:

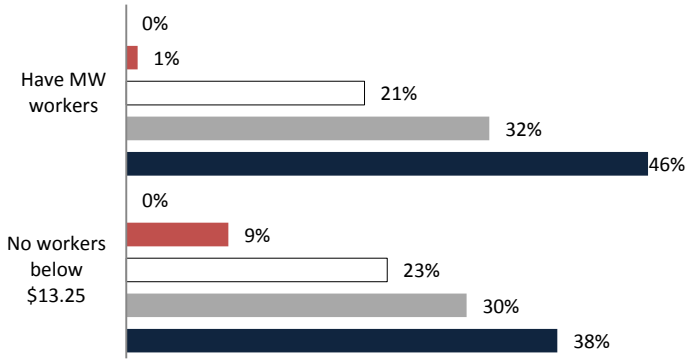
Almost three-quarters (72 percent) of employers appear ready to increase their minimum wages to fully match those paid elsewhere. This speaks to the competition employers will face in the labor market.

This appears more likely for employers of minimum wage workers than for those that are not immediately impacted.

Responses among different business sizes are quite similar, but firms in Northeast Long Beach are more likely to increase their wages to compete with potential areas that pay higher wages.

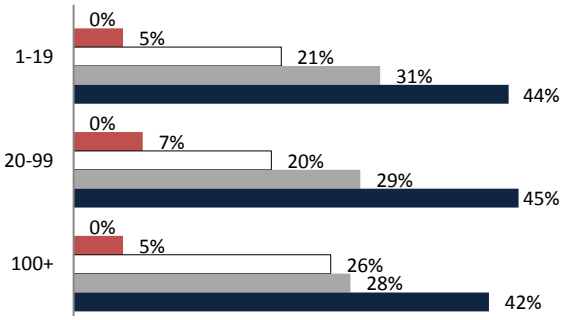
Still, a significant number of employers are undecided about their internal pay policy and competitive stance.

Employers of Minimum Wage Workers



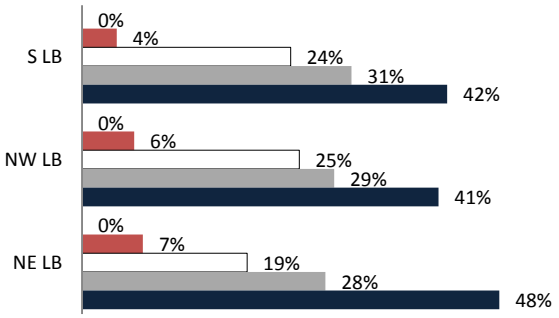
Mean responses were 4.2 and 4.0, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



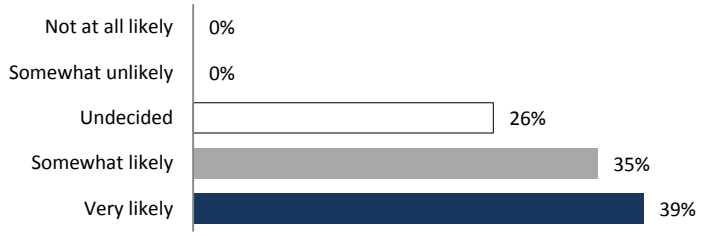
Mean responses were 4.1, 4.1 and 4.1, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 4.1, 4.1 and 4.2, respectively. Sampling error of +/- 7.1%.

QUESTION 20: What is the likelihood that ...
You will increase the minimum wages you pay at least somewhat to compete with those paid elsewhere?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.1.

WHAT THIS TELLS US:

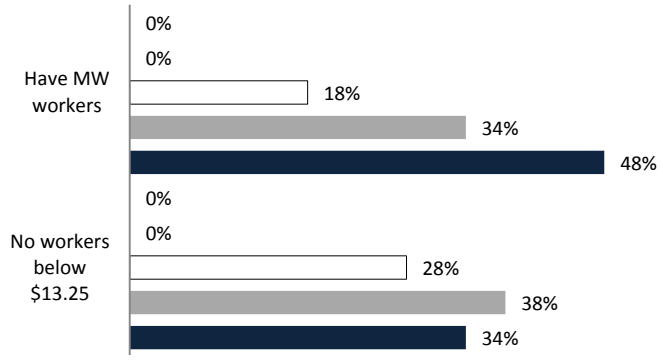
If not matching wages paid elsewhere, 74 percent of employers expect to at least raise their minimum wages somewhat to compete with nearby labor markets.

Employers with minimum wages think this is more likely. Remarks heard during the public forums support this finding that employers understand that their employees will maximize their earnings, and to compete with neighboring regions, they expect to raise the wages of their best employees to retain them.

Surprisingly, large employers think it more likely, although the differences among business size are not significant.

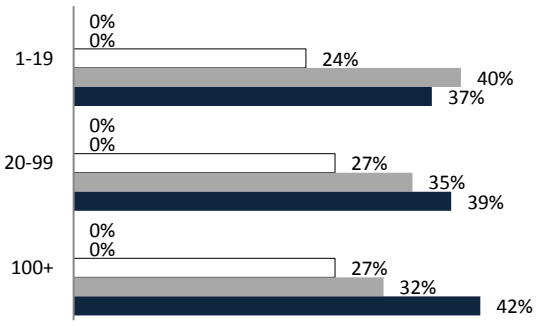
Employers in South Long Beach are more likely to increase wages competitively than other areas of the city.

Employers of Minimum Wage Workers



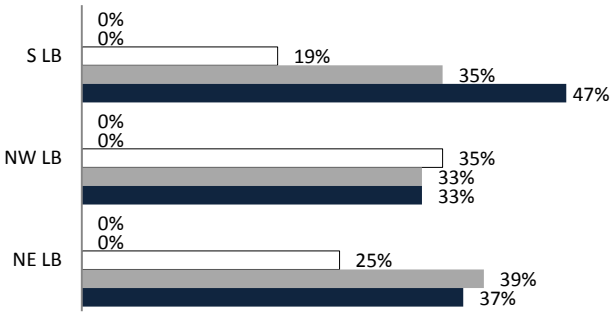
Mean responses were 4.2 and 4.1 , respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



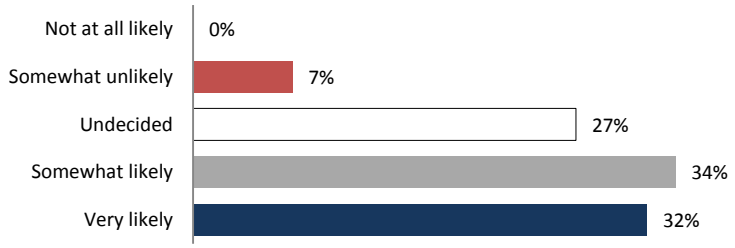
Mean responses were 4.1, 4.1 and 4.1, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 4.3, 4.0 and 4.1, respectively. Sampling error of +/- 7.1%.

QUESTION 21: What is the likelihood that ...
You will lose your minimum wage or lower-paid employees to areas that pay higher wages?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 3.9.

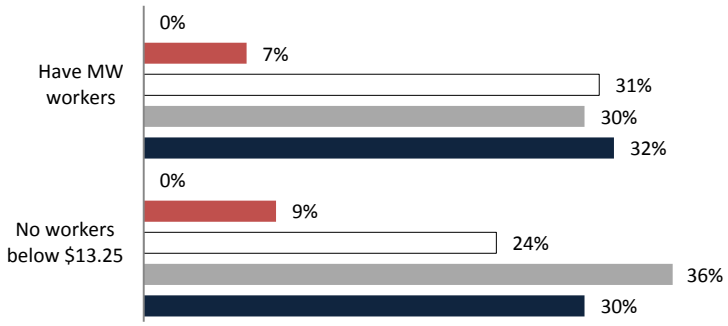
WHAT THIS TELLS US:

Increasing the wages of their lower-paid employees may be a response to employers' fear of losing employees to high-wage areas. Of all respondents, 66 percent believe that their employees will shop around.

Surprisingly, a third of all employers of minimum wage workers today are undecided. Many responses heard during the open forums suggest that there is a strong connection between employers and their employees, especially employers with fewer staff members. These responses may reflect some loyalty between employers and employees. Large businesses do seem to expect more competition from higher wages elsewhere (perhaps enjoying less connection with their employees).

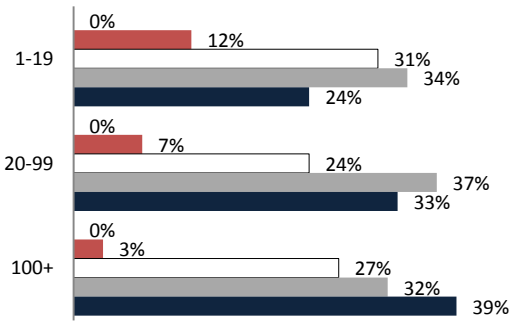
Similarly, firms in northwest Long Beach seem to expect this to be more likely than other areas of the city.

Employers of Minimum Wage Workers



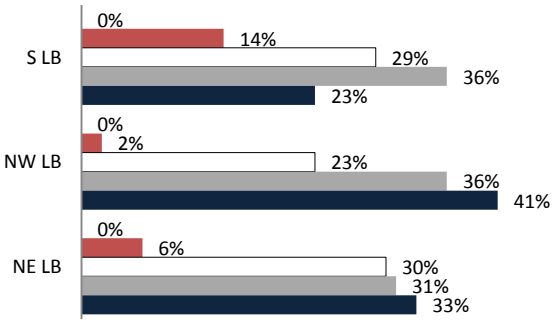
Mean responses were 4.2 and 3.9, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



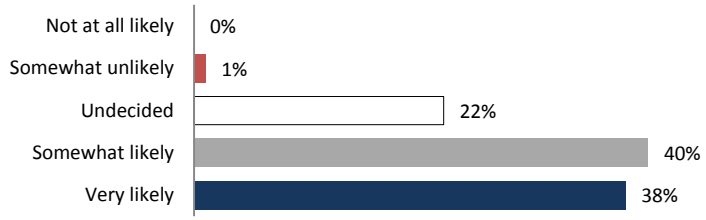
Mean responses were 3.7, 4.0 and 4.1, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 3.7, 4.2 and 3.9, respectively. Sampling error of +/- 7.1%.

QUESTION 22: What is the likelihood that ...
You will raise the price of your goods and services to match those charged in areas that pay higher minimum wages?



On a scale of 1 to 5, with 1 being "not at all likely," 3 being "neither likely nor unlikely" and 5 being "very likely," the mean of all responses was 4.1.

WHAT THIS TELLS US:

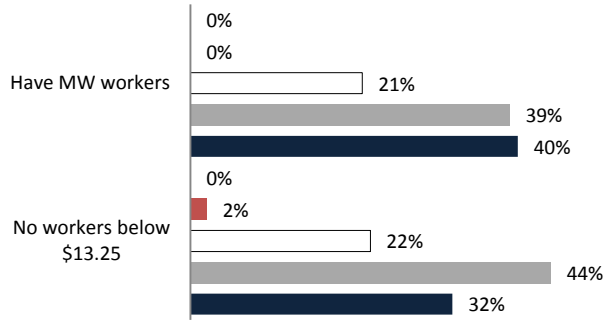
Almost eighty percent of businesses are expecting to raise their prices to match those paid elsewhere.

While employers of minimum wage workers think this is somewhat more likely than those that will not be immediately impacted, the differences are not significant.

Differences among size of business and by location are also not significant.

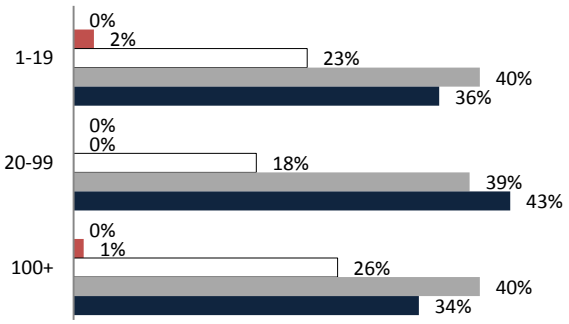
However, a significant number of respondents are undecided.

Employers of Minimum Wage Workers



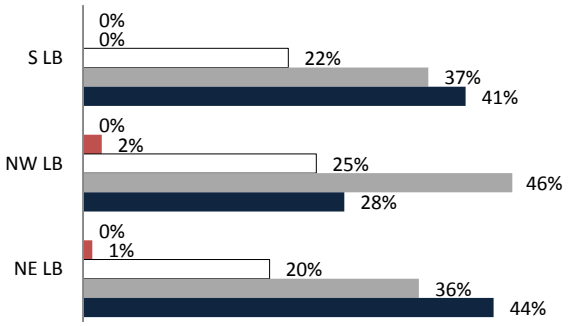
Mean responses were 4.0 and 4.1, respectively. Sampling error of +/- 7.0%.

By Size of Business (# of Employees)



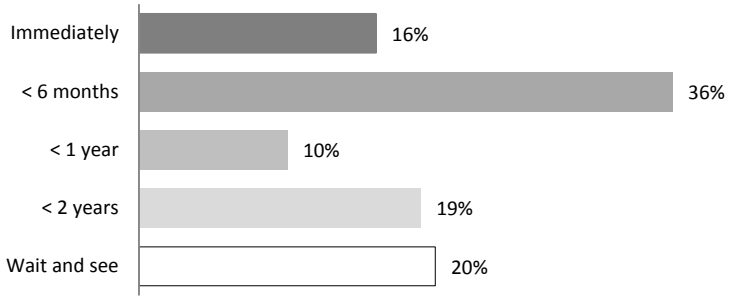
Mean responses were 4.1, 4.3 and 4.1, respectively. Sampling error of +/- 7.1%.

By Region



Mean responses were 4.2, 4.0 and 4.2, respectively. Sampling error of +/- 7.1%.

QUESTION 23:
When will any changes you do decide to make occur?



WHAT THIS TELLS US:

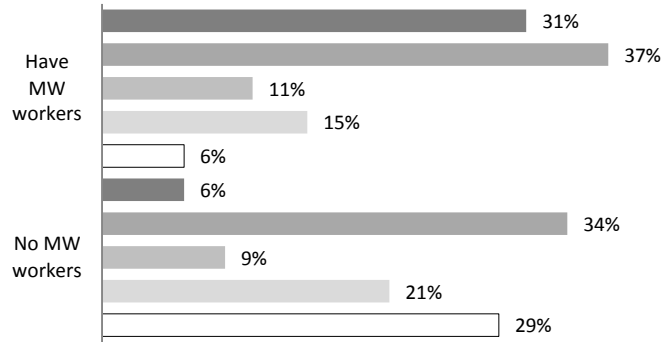
Overall, approximately 16 percent of businesses expect to take immediate action and an additional 36 percent will take action within the next six months.

Employers of minimum workers are more likely to make changes in the short term, as are small businesses, while employers who are not going to be impacted by a minimum wage increase will take a "wait-and-see" attitude.

Still, more than one-third of employers without minimum wage workers expect to make some changes within the next six months, suggesting a proactive stance.

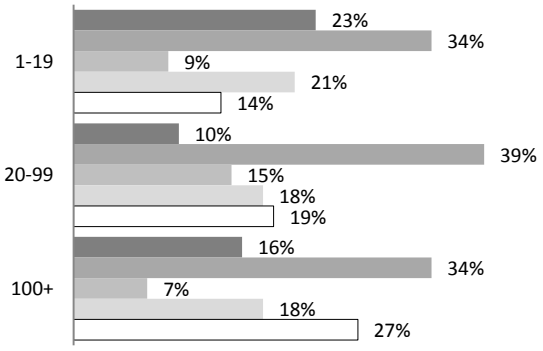
This finding is consistent among businesses of different sizes and in different regions of Long Beach. Firms in Northeast Long Beach appear more likely to move forward with immediate changes than firms in other regions of the city.

Employers of Minimum Wage Workers



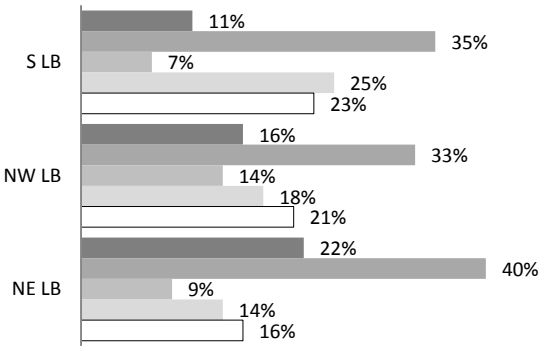
Samping error of +/- 7.0%.

By Size of Business (# of Employees)



Samping error of +/- 7.1%.

By Region



Samping error of +/- 7.1%.

APPENDIX

LITERATURE

The LAEDC surveyed much of the new minimum wage research, including both academic studies and numerous articles published in the popular press and by private entities. Individual papers which were found to be helpful are listed below.

- **Comprehensive literature reviews:**
  - Belman, Dale, and Paul J. Wolfson, 2014. *What Does the Minimum Wage Do?* W.E. Upjohn Institute for Employment Research.
  - Neumark, David, and William L. Wascher. 2008. *Minimum Wages.* MIT Press.
  - Schmitt, John. 2013. "Why Does the Minimum Wage Have No Discernible Effect on Employment?" Center for Economic and Policy Research.
  - Doucouliagos, Hristos, and T.D. Stanley. 2009. "Publication Selection Bias in Minimum Wage Research? A Meta-Regression Analysis." *British Journal of Industrial Relations* 47(2): 406-428.

- **On longer term impacts:**
  - Sorkin, Isaac. 2014. "Are There Long-Run Effects of the Minimum Wage?" *Review of Economic Dynamics.*– long run effects are much larger if permanent
  - Aaronson, Daniel, Eric French and Isaac Sorkin. 2015. "Industry Dynamics and the Minimum Wage." Draft, Federal Reserve Bank of Chicago.
  - Rohlin, Shawn M. 2011. "State minimum wages and business location: Evidence from a refined border approach," *Journal of Urban Economics* 69(1)
  - Meer, Jonathan, and Jeremy West. 2013. "Effects of the Minimum Wage on Employment Dynamics." Draft, Texas A&M University.
  - Baker, Michael, Dwayne Benjamin and Suchita Stanger. 1999. "The Highs and Lows of the Minimum Wage Effect: A Time-Series Cross-Section Study of the Canadian Law," *Journal of Labor Economics* 17(2).

- **On effect of MW on prices:**
  - Aaronson, Daniel, Sumit Agarwal and Eric French. 2011. "The Spending and Debt Responses to Minimum Wage Hikes." Federal Reserve Bank of Chicago.
  - Aaronson, Daniel. 2001. "Price Pass-Through and the Minimum Wage," *Review of Economics and Statistics* 83(1).
  - MacDonald, James M., and Daniel Aaronson. 2006. "How Firms Construct Price Changes: Evidence from Restaurant responses to Increased Minimum Wages," *American Journal of Agricultural Economics* 88(2).
  - Aaronson, Daniel and Eric French. 2007. "Product Market Evidence on the Employment Effects of the Minimum Wage," *Journal of Labor Economics* 25(1).

- **On effect of MW on profits:**
  - Draca, Mirko, Stephen Machin and John Van Reenan. 2011. "Minimum Wages and Firm Profitability," *American Economic Journal: Applied Economics* 3(1).

- **Unpaid labor:**
  - Clemens, Jeffrey, and Michael Wither. 2014. "The Minimum Wage and the Great Recession: Evidence of Effects on Employment and Income trajectories of Low-Skilled Workers." Draft, University of California at San Diego.

- **On effect of MW on earnings:**
  - Neumark, David, Mark Schweitzer and William Wascher. 2004. "Minimum Wage Effects throughout the Wage Distribution," *Journal of Human Resources,* 39(2).

- **On labor-labor substitution:**
  - Guiliano, Laura. 2013. "Minimum Wage Effects on Employment, Substitution, and Teenage Labor Supply: Evidence from Personnel Data," *Journal of Labor Economics* 31(1).
  - Hirsch, Barry T., Bruce Kaufman and Tetyana Zelenska. 2011. "Minimum Wage Channels of Adjustment." IZA Discussion Paper No. 6132. Institute for the Study of Labor.
  - Neumark, David and William Wascher. 2011. "Does a Higher Minimum Wage Enhance the Effectiveness of the Earned Income Tax Credit?" *Industrial and Labor Relations Review* 64(4).
  - Thompson, Jeffrey P. 2009. "Using Local Labor Market Data to Reexamine the Employment Effects of the Minimum Wage," *Industrial and Labor Relations Review* 62(3).

- **Other literature reviewed:**
  - *On employment: Allegretto, Dube & Reich; (2011) on teens; Allegretto, Dube, Reich & Zipperer (2013); CBO (2014); Dube, Lester & Reich (2010); Dube, Naidu & Reich (2000) on restaurants; Dube, Naidu & Reich (2007); Jacobs & Reich (2014) on SF; Neumark, Salas & Wascher (2014); Meer & West (2015); Neumark & Wascher (1992) on teens; Potter (2006) on Santa Fe; Schmitt & Rosnick (2011); Yelowitz (Employment Policies Institute); Sabia, Burkhauser & Hansen (2012) on low-skilled youth*
  - *On ripple effect: Phelan (2014); Wicks-Lim (2006)*
  - *On capital substitution: Aaronson & Phelan (2014); Autor (2014a, 2014b)*
  - *On prices, profits and rents: Aaronson (2001); Aaronson, French & MacDonald (2008); Allegretto & Reich (2014); Ashenfelter, Farber & Ransom (2010); Benner & Jayaraman (2012) on costs; Draca et al (2011) in Britain; Dube, Naidu & Reich (2007); Harasztosi & Lindner (2015) in Hungary; Manning (2003); Pollin (2004) on costs; Reich & Laitinen (2003) on costs*
  - *On border effects: Allegretto, Dube, Reich & Zipperer (2013); Colbion et al (2015) on price differences; Dube, Lester & Reich (2010 and forth) on border relocation*
  - *On earnings: Allegretto, Dube, Reich & Zipperer (2013) on teens and restaurant workers; Baskaya & Rubenstein (2012) on teens; Belman & Wolfson (2014); Dube, Lester, Reich (2010); Pollin (2004) on Santa Fe; Reich (2012) on San Jose; Schmitt (2013); Schmitt & Rosnick (2011) on SF and Santa Fe*
  - *On poverty: Neumark & Wascher (2001); Sabia & Burkhauser (2010)*
  - *On small biz: Fiscal Policy Institute (2006); Sabia (2006)*

METHODOLOGIES

To estimate the impact on workers and wages in Long Beach, the base data comes from the 2011 American Community Survey (ACS) Integrated Private Use Microdata (IPUM) from the U.S. Census. The data is adjusted to restrict the sample to Long Beach workers only, to remove outliers and to impute a number of variables. Hourly wages were calculated as annual income divided by annual hours worked, using the midpoint of ranges of weeks worked reported.

Additionally, we remove individuals who worked less than 14 weeks in a year, as we assume that these individuals are not connected to the labor market. After this data cleaning, we still observe significant portions of individuals who make significantly less than the current state minimum wage. These workers may represent a portion of the informal labor market. The Los Angeles-Long Beach metropolitan area exhibits a significant informal economy. Informal workers are kept in the data because some evidence suggests that minimum wage increases in the formal labor market impact wages in the informal market.

Although comparable studies have restricted the IPUMS data to Long Beach residents as opposed to Long Beach workers, we restrict our data to Long Beach workers regardless of residence. It is known that workers who commute into Long Beach earn substantially more than do Long Beach workers that reside in the city, and the analysis would therefore otherwise provide poor estimates of the impact of minimum wage increases on the entire workforce in Long Beach.

Hourly wage data is inflated to 2015 dollars using the Bureau of Labor Statistics' Consumer Price Index inflator. Wage estimates for subsequent years are inflated using LAEDC's forecast of wage income growth for the Los Angeles County Gateway Cities region through 2020.

There are two categories of impacted workers: those who are directly impacted by a minimum wage increase and those indirectly impacted by a minimum wage increase's ripple effect. We assume a ripple effect of up to 15 percent of the new minimum wage.

Workers receive a boost to their wages depending on the type of impact (direct vs. indirect) they are forecasted to receive. Two estimates, a high and low estimate, are calculated but it is the midpoint of these two estimates that is reported. We prefer the midpoint estimate as it allows us to better forecast the income effect in future years. This boost is received for every forecasted year (2016-2020) following the wage inflation received by all workers.

At the end of each year, the total employment count is adjusted using LAEDC's forecasted employment growth in the Los Angeles Gateway Cities region. Initial employment is the number of total jobs in Long Beach according to Longitudinal Employer-Household Dynamics (LEHD) data. We do not modify employment growth to account for changes due to the minimum wage increases.

Demographic counts are based on the authors' analysis of LEHD, ACS IPUMs, and California EED data. It is assumed that existing demographic characteristics in Long Beach will remain relatively unchanged over the forecast period.

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