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2014 JUN 26 PM 3:07

AGENDA REPORT

TO: HENRY L. GARDNER
INTERIM CITY ADMINISTRATOR

FROM: Rachel Flynn

SUBJECT: Minimum Wage Economic Impact Study

DATE: June 16, 2014

City Administrator

Date

Approval

6/23/14

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Staff recommends that the City Council receive:

An Informational Report Presenting A Preliminary Economic Analysis Of Proposals To Establish A City Minimum Wage

EXECUTIVE SUMMARY

At the April 29th Community and Economic Development (CED) Committee meeting, Vice Mayor Larry Reid proposed the establishment of a City of Oakland minimum wage at \$10.20 per hour. The City does not currently have its own minimum wage rate, but adheres to the State minimum wage rate of \$8.00 per hour (increasing to \$9.00 per hour effecting July 1, 2014). A proposed November ballot initiative would establish an Oakland minimum wage of \$12.25 an hour, effective March 2, 2015. As reported at the CED meeting, staff have engaged an economic consultant to study Oakland-specific impacts of establishing a city minimum wage. What follows is a summary of findings from that study, performed by Hausrath Economics Group. The complete study, titled "Economic Impact Assessment of a Proposed Minimum Wage Increase in Oakland," is attached as **Attachment A**. The April 29th staff report is also attached for reference as **Attachment B**, and includes a summary of the benefits of increasing the minimum wage as well as a summary of key issues for consideration.

Key findings from the Hausrath Economic Impact Assessment include:

- An estimated total of 67,000 resident and non-resident workers would benefit both directly and indirectly from a minimum wage increase to \$12.25.
- Increased worker spending for goods and services would in the long run benefit the local economy.

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- The business sectors in Oakland with the largest share of minimum wage workers include retail, food, arts, administrative, and “other services,” which includes non-profits, advocacy organizations, and many neighborhood services. This “other services” sector contains the largest share of minimum wage workers.
- Within these sectors, the projected increase in labor costs is estimated at 2-11% of total revenues, while profit margins are estimated as 4% of revenues.
- Not allemployers would be able to raise prices to offset costs, whether because they are grant-funded or because the local market would not support higher prices. In the short term, these employers may reduce hours, positions, or service levels.

A comparison to previous and proposed federal, state and local minimum wage increases shows that large minimum wage increases are generally staggered in annual increments of 5 to 12 percent. The Hausrath Economics Impact Assessment suggests phasing in an increase to \$12.25 for small businesses and non-profits in order to allow these businesses to adapt and absorb costs in a sustainable manner.

The Lift UP Oakland Coalition also released a study, *The Impact of Oakland’s Proposed City Minimum Wage Law*, by UC Berkeley’s Center on Wage and Employment Dynamics. This report is included for reference as *Attachment C*.

BACKGROUND/LEGISLATIVE HISTORY

Federal and State Minimum Wage Policies

The federal minimum wage is currently \$7.25 per hour. After increases in most years during the 1960s and 1970s, Congress has raised the national minimum only eight times since 1980, and a current effort to raise the federal minimum wage to \$10.10 per hour has met Congressional opposition. Some studies indicate that this increase could pull roughly half of the nation’s working poor out of poverty.

California’s minimum wage was raised to \$8.00 per hour in 2008. It is scheduled to rise to \$9.00 on July 1 of this year, and to \$10.00 on January 1, 2016. A bill sponsored by California state senator Mark Leno that would raise the state minimum wage to \$11 next year and to \$13 by 2017, to be indexed to inflation thereafter, has cleared the State Senate.

Minimum Wage Policies and Proposals in other Bay Area Jurisdictions

In 2004, the City of San Francisco became the first local municipality to establish a minimum wage, at \$8.50 per hour. With annual cost of living adjustments, it is \$10.74 per hour today. San Francisco also has labor standards for mandatory health care and paid leave. By referendum in 2012, the City of San Jose established a minimum wage of \$10.15 per hour. The City of Richmond recently adopted legislation establishing its minimum wage at \$9.00 per hour beginning in July 2014 and rising to \$13.00 an hour by January 2018.

The City of Berkeley is also contemplating establishing a new minimum wage with a staggered phase-in and an annual cost of living increase. The City of San Francisco is now promoting a second initiative to raise its minimum wage to \$15 an hour by July 2018.

At the CED Committee meeting of April 29, 2014, Councilmember Reid proposed an ordinance to raise Oakland's minimum wage to \$10.25 an hour. In May 2014, the Lift Up Oakland coalition submitted signatures to place a measure on the November ballot that would establish a local minimum wage at \$12.25 per hour, effective March 2, 2015, with annual escalators based on increases in the local Consumer Price Index. The initiative also includes requirements for paid sick leave and a requirement that hospitality workers receive service charges that are included on customers' bills.

ANALYSIS

Below is a summary of key findings from the Hausrath Economic Impact Assessment. The complete report is included as *Attachment A*. The analysis considers the wage benefits for workers and other positive benefits, the ability of Oakland's businesses to adjust to the increased costs, and the scale and timing of implementing a wage increase as compared to other cities.

Wage Benefits for Oakland Workers and other Economic Benefits

The prospect of raising the minimum wage enjoys broad support throughout Oakland. Recent decades have been hard on American workers, particularly those earning at or near minimum wage. Wages have not kept pace with inflation and the growing costs of goods and services, making it difficult to maintain or improve one's standard of living. Even though states like California have set minimum wage rates above the federal level, they still remain below their historic value in inflation-adjusted terms and do not reflect the higher cost of living in many urban areas.

Proposals to raise the minimum wage not only address the widening income gap between the working poor and middle and upper class workers, but also the loss of real income overall. The

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April 29th CED staff report contained a brief literature review of the benefits of raising the minimum wage. It is attached as **Attachment B**.

Number of Workers Directly Affected

The report finds that that the hourly wages of about 57,000, or 27 percent, of the people working in Oakland could directly increase with a higher minimum wage set at \$12.25 per hour, as follows:

- ***Workers Earning the Current Minimum Wage***

About 29,000 workers, representing 14 percent of the jobs in Oakland, are paid at or near the current minimum wage of \$8 per hour. The wages of these workers would increase to \$12.25 per hour under the Initiative proposal.

- ***Workers Currently Earning Between \$8.00 and \$12.25 Per Hour***

In addition, hourly wages would also increase for about 28,000 people now earning above the current minimum wage (\$8.00 per hour) but below the proposed, higher minimum wage of \$12.25 per hour. This group represents an additional 13 percent of the jobs in Oakland.

Demographic Characteristics of Workers Directly Affected

About half of the workers who would receive an increase are between the ages of 30 to 54 and about half are white. However, the minimum wage-earning workforce is proportionately younger and includes more women and African Americans than the Oakland workforce overall.

Place of Residence of Workers Affected

About one-half of the workers who would potentially earn a higher wage live in Oakland, and about one-half live in other cities throughout the region.

Number of Workers Who Could Benefit Indirectly

The wages of some of the workers earning above the minimum wage are also likely to increase to maintain relative pay differentials. It is estimated that the indirect effect on wages could impact workers currently earning at or near the new minimum wage (\$12.25) and those earning up to about 20 percent above the new minimum (up to about \$14.70 per hour). This group is estimated to include up to an additional 9,900 workers, about five percent of total jobs. This indirect effect may not all happen immediately, but is likely to occur.

Therefore, the total number of Oakland jobs workers that would benefit indirectly or directly is 67,000.

Increased Competition for Jobs With Higher Wages In Oakland

Higher hourly wages would increase the desirability of jobs in Oakland compared to similar jobs in nearby cities with a lower minimum wage. If there is a 30 percent differential in the minimum wage between Oakland and nearby cities covered by the lower, State mandated minimum wage, the competition for lower-wage jobs in Oakland would increase. This will likely provide more applicants with a broader range of skills and experience for jobs in Oakland businesses.

Increased competition could also mean that workers with less skills and experience could have more difficulty securing employment in Oakland.

Increased Spending for Goods and Services Across the Region

Raising the minimum wage would result in increased spending by workers with higher earnings. The benefits in stimulating the economy would occur across the region as well as in Oakland. About half of the workers to be directly affected live and likely shop outside of Oakland, and some of the spending by Oakland residents also occurs in nearby cities. Increased spending during the work day would occur in Oakland.

Higher Costs for Oakland Businesses

Higher wages for Oakland workers would be paid by the Oakland businesses employing those workers. In addition to the higher wages, there also would be associated higher payroll taxes, and potentially higher operating costs over time due to higher wages in other industries. The higher costs must be offset by higher revenues (higher prices) and/or lower costs and cost savings in other cost categories, including labor reductions.

Impacts Focused on Businesses in Five Industry Sectors

The Hausrath report shows that, among businesses in Oakland, those whose labor costs would be most impacted by the proposed minimum wage increase would be in the following industry sectors:

- **Other Services** (repair and maintenance, personal care and laundry, religious/civic/social organizations and non-profits, etc.);
- **Food Services and Accommodations;**

- **Administrative and Support Services** (office administrative, business support, security, and building services) and **Waste Management and Remediation Services**;
- **Retail Trade**; and
- **Arts, Entertainment, and Recreation**.

In total, businesses and organizations in these five industry sectors employ 51 percent of the lower wage workers whose wages would increase as a direct result of the proposed minimum wage initiative, although they account for only 28 percent of total employment in Oakland. As a result, the share of workers to be directly affected by a higher minimum wage ranges from 40 percent to 60 percent within these sectors.

Challenges to Offsetting Labor Costs with Higher Prices

Within these sectors, the projected increase in labor costs is estimated at 2-11% of total revenues, while profit margins are estimated as 4% of revenues. Therefore, some businesses will likely charge higher prices or reduce hours or employment in order to offset their higher costs in the short term. Within these sectors, the following business types would have difficulty offsetting their costs through higher prices:

- Non-profits, the school district, and others paid through grants or State/Federal funding.
- Arts and recreation organizations (museums, Zoo, Fairyland, etc.) with grant and government funding who seek to keep admission charges as low as possible.
- Health care and other providers paid primarily through State and Federal grants on a reimbursement basis.
- Businesses that host job training programs whose wages are funded through federal and state contracts.

The large majority of businesses in these five sectors are small. Between 62 to 80 percent of the businesses in these sectors have less than 10 employees.

Comparison to Other East Bay Minimum Wage Proposals

The following table from the Hausrath assessment summarizes the annual percentage increase of the current Federal, State, and local minimum wage proposals. While the amount of the increase is commensurate with other cities, the Oakland increase as proposed for the November ballot occurs significantly faster.

**TABLE 6
COMPARISON OF MINIMUM WAGES AND PROPOSALS: FEDERAL, STATE, AND BAY AREA**

	Jan 2014	July	Jan 2015	Jan 2016	Jan 2017	Jan 2018	Jan 2019
Federal							
Current Law	7.25		7.25	7.25	7.25	7.25	7.25
Proposed /a/	7.25		8.20	9.15	10.10	10.37	10.65
State							
Current Law in CA	8.00	9.00	9.00	10.00	10.00	10.00	10.00
San Francisco							
Current Law since 2004	10.74		11.03	11.33	11.63	11.95	12.27
San Jose							
Current Law since 2013	10.15		10.42	10.71	10.99	11.29	11.60
Oakland Proposal Ballot Initiative	8.00	9.00	12.25 (Mar.)	12.58	12.92	13.27	13.63
Berkeley Proposal As of 6-11- 2014	8.00	10.00 (Oct.)	11.00 (Oct.)		12.53 (Oct.)	12.53 (Oct.)	12.53 (Oct.)
Richmond Proposal As of 6-3- 2014	8.00	9.00	9.60	11.52	12.30	13.00	13.35
San Francisco Proposal As of 6-10- 2014	10.74		11.03 12.25 (May)	13.00 (July)	14.00 (July)	15.00 (July)	

NOTE: Where applicable, CPI for Urban Wage Earners and Clerical Workers assumed at 2.7 percent (average for past 15 years in SF-Oak-SJ MSA)

/a/ Calculated assuming passage of Fair Minimum Wage Act by October 2014.

Source: Hausrath Economics Group compiled from a number of sources. Also see Tables A-1 and A-2 in the Appendix.

Strategies to Raise the Minimum Wage to \$12.25 while Mitigating Adverse Impacts

the Hausrath assessment proposes the following modifications to provide a better balance between (a) providing the benefits of a higher minimum wage for workers, and (b) allowing businesses in Oakland to adjust to higher wage costs so as to support continued economic activity and job growth without unintended consequences:

- **Phasing-in increases in the minimum wage more gradually** over time could make a significant difference. Annual increases in the minimum wage over several years are proposed in the range of 5 to 12 percent per year. That pattern is consistent with the current proposals in other cities as described above. A staggered increase also contributes to the perception of stability in the business climate.
- **A longer phase-in period or grace period, for small businesses and non-profits** with less ability to pay higher wage costs, as proposed in other cities, would provide these businesses time to adjust and absorb costs in a sustainable manner.
- **Exemptions or an established lower wage (while still higher than the State minimum wage) for youth in summer or other training programs** and for other beneficial employment could also be considered.
- To the extent possible, **a more coordinated, regional approach** to minimum wage policy in the East Bay makes sense so as to reduce the potential competitive disadvantages that could arise between Oakland and nearby cities that retain lower minimum wages.

PUBLIC OUTREACH/INTEREST

Lift UP Oakland is the coalition that is planning to place the \$12.25 per hour minimum wage initiative on the November ballot. This coalition is comprised of many community based and labor organizations with which the City has worked. In addition, the Oakland Metropolitan Chamber of Commerce has hosted a discussion on the business impacts of an increased minimum wage. The Chamber also conducted a survey of its members and coordinated with the Hispanic Chamber of Commerce and Chinatown Chamber of Commerce.

COORDINATION

The minimum wage impact study and related efforts have been coordinated between the Economic and Workforce Development Departments, the City Attorney's Office and the Budget Office.

COST SUMMARY/IMPLICATIONS

Enforcement costs

At this point, staff has no precise cost estimates but want to ensure the City Council considers the cost of enforcement of a City Minimum Wage. San Jose devotes 0.8 FTE to field and follow-up complaints from workers. San Jose also set aside additional general funds for legal fees and enforcement, which the City has not had to access since its minimum wage was enacted in March 2013.

The City of San Francisco has a robust Office of Labor Standards Enforcement to oversee its many workplace standards ordinances. Its minimum wage enforcement is also complaint driven, although the Office of Labor Standards and Enforcement does use active enforcement for instances where there are numerous alleged violations in a particular area or with particular types of businesses.

Reductions in Workforce Training Programs and Senior Aides

The City funds several workforce training programs through the Workforce Investment Act (fund # 2195), the Oakland Fund for Children and Youth (1780), Oakland Unite (2251), Team Oakland (1720), and Oakland Parks and Recreation (1010 and 1820) . Combined they serve over 1,000 youth year-round and during the summer. In addition, Alameda County and the Oakland Housing Authority (fund #7999) fund programs that serve a total of 650 Oakland youth year-round and during the summer. All of these programs provide paid work experience wages for their participants. Currently, these programs pay an average of approximately \$10 per hour. At \$12.25, the 22.5% increase in wages and related withholding taxes could result in a service level reduction of roughly 20%, assuming no increases in funding allocations.

The Human Services Department (HSD), through a federal grant, provides employment opportunities to Oakland seniors. Funding for the Senior Aides program is determined by the federal government and staff have previously confirmed that additional funding will not be allocated to account for increases in the minimum wage. The impact of the minimum rate change, then, is that fewer individual seniors can be hired into positions funded by the program.

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Increased Wages for City employees

Three classifications impacted by the minimum wage increase are Recreation Aide, PT, Recreation Attendant I, and Recreation Attendant II. The salary structure for the Recreation Aide, PT and Recreation Attendant I classifications would need to be revised as of March 2, 2015 to reflect the \$12.25 minimum wage at Step 1 and increase in pay level for the other steps. Additionally, raising the salary structure of the Recreation Attendant I classification has further impacts in that it will push up the Recreation Attendant II salary schedule, to avoid compactions between the two classifications in the series. Staff is completing additional analysis to calculate the total cost impact. This additional information will be submitted as a Supplemental Report.

SUSTAINABLE OPPORTUNITIES

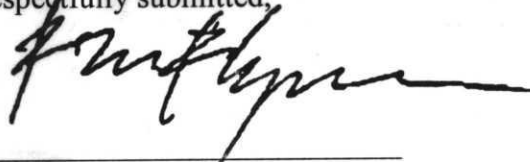
Economic: Increasing the minimum wage will benefit a significant number of Oakland residents and stimulate the City's economy through increased spending. A large, immediate increase may result in reduction of hours or jobs at some businesses, a slowdown of new business attraction, and a reduction in job training opportunities.

Environmental: This report does not directly address environmental sustainability.

Social Equity: Increasing the minimum wage to \$12.25 an hour would be a significant step towards improving income equality and social equity in Oakland.

For questions regarding this report, please contact Marisa Raya, City Administrator Analyst, 510-238-6230.

Respectfully submitted,



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Attachment A: *Economic Impact Assessment of Proposed Minimum Wage Increase in Oakland*, prepared for the City of Oakland by Hausrath Economics

Attachment B: Staff Report, *Minimum Wage Ordinance*, CED Committee, April 29, 2014.

Attachment C: *The Impact of Oakland's Proposed City Minimum Wage Law: A Prospective Study*, UC Berkeley Center on Wage and Employment Dynamics, June 2014

ATTACHMENT A



**ECONOMIC IMPACT ASSESSMENT
OF PROPOSED MINIMUM WAGE INCREASE
IN OAKLAND**

Prepared for
CITY OF OAKLAND

Prepared by
HAUSRATH ECONOMICS GROUP
URBAN ECONOMISTS

June 16, 2014

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EXECUTIVE SUMMARY

In Oakland, an initiative to establish a citywide minimum wage has qualified for the November 2014 ballot. The Initiative proposes increasing the minimum wage in Oakland to \$12.25 per hour on March 2, 2015.

To address the pros and cons of raising the minimum wage under the ballot Initiative proposal (“the Initiative”), an economic impact assessment was prepared for the City of Oakland. The assessment focuses specifically on impacts within Oakland from the perspectives of its workers, its business community, and its economy overall. It examines the impacts of increasing the minimum wage in Oakland from the current State minimum wage (\$8.00 per hour today and \$9 per hour beginning July 1) to \$12.25 per hour, a 53 percent increase over an eight-month period.

Overall, it is estimated that about 67,000 people, or 32 percent of the people working in Oakland, could benefit from higher earnings either directly or indirectly. Such benefits are important as wages have not kept pace with inflation and the growing costs of goods and services, making it difficult to maintain or improve one’s standard of living. Raising the minimum wage is a significant step in addressing income inequality in the Bay Area.

As the assessment finds, the large increase proposed for the minimum wage would require a number of adjustments by Oakland businesses that would be difficult over the short period of time for implementation. Over the longer term, higher costs of doing business in Oakland in relation to nearby and other cities with lower minimum wages could affect Oakland’s competitive ability to retain and attract business growth.

The key findings contained in the report are summarized as follows.

Benefits for Workers

- ◆ The hourly wages for about 67,000 people, or 32 percent of those working in Oakland, could increase with the higher minimum wage that is proposed.
 - About 57,000 people (27 percent) who are earning at or below \$12.25 per hour today could be directly affected by higher hourly wages.
 - An additional 9,900 workers (5 percent) with hourly wages above \$12.25 could be affected indirectly to maintain relative pay differentials.
 - The higher earnings would support an improved standard of living for workers and their families.
 - Studies show that increasing the minimum wage results in improved worker satisfaction, leading to improved worker retention and productivity.
 - About one-half of the workers to directly benefit from higher wages live in Oakland and about one-half live in other Bay Area cities.

Impacts on Oakland's Businesses

- ◆ Businesses in Oakland whose labor costs would be most affected are in five industry sectors: Other Services, Food Services and Accommodations, Administrative and Support Services, Retail Trade, and Arts/Entertainment/Recreation. The largest number of businesses impacted fall in the "Other Services" sector, which includes those providing repair/maintenance, personal care, laundry, and other neighborhood services and religious/civic/social organizations and non-profits.
 - These five sectors employ 51 percent of directly affected workers although they account for 28 percent of total employment in Oakland.
 - The large majority are small businesses; 62 to 80 percent have less than 10 employees.
 - These businesses are located throughout Oakland.
 - Higher costs for wage increases would be large for these businesses:
 - Labor costs would increase 17 to 26 percent.
 - Labor cost increases would represent 2 to 11 percent of total revenues.
 - Labor cost increases would exceed profit margins in many cases, ranging up to twice as large.

Impacts on Oakland's Economy

- ◆ *Near-term impacts* on business activity and employment are likely as affected businesses have difficulty adjusting to large increases in labor costs over a short period of time.
 - Initially, businesses would accept lower profits, encourage increased productivity from workers, and attempt to raise prices.
 - It is also likely that hours and/or jobs would be reduced in some cases.
 - Business expansion plans would be put on hold.
- ◆ *Longer-term impacts* on business activity and employment would result from higher costs of doing business in Oakland, absolutely and in relation to nearby and other cities with lower minimum wages.
 - Higher labor costs could be covered primarily by:
 - Higher prices, although it could be different to raise prices above those for competitive businesses in nearby cities with lower wage costs.
 - Cost savings from reduced worker turnover and improved worker performance from those paid higher wages.
 - Lower labor costs from fewer hours of employment, lower increases in wages for workers paid above minimum wage, and/or contracting out some business functions.

- Higher costs of doing business relative to nearby cities with a lower minimum wage could affect business location decisions and affect Oakland's competitive ability to retain and attract investment and business growth.
- Raising the minimum wage would provide additional spending benefits that would occur across the region as well as in Oakland.

Comparisons to other Bay Area Minimum Wage Proposals and Policies

- ◆ Compared to other minimum wage laws and proposals in the Bay Area, the Initiative Proposal for Oakland includes the largest increase in the minimum wage over the shortest period of time, and it has no exemptions or phase-in provisions. These aspects of the proposal increase the potential for local economic impacts and further explain the conclusions above.
 - *Oakland Initiative*: increase of \$4.25 per hour and 53 percent over 8 months.
 - *San Francisco Law (2004)*: increase of \$1.75 per hour and 26 percent over 12 months. Small businesses and non-profits were given a first year grace period and a second year to phase in the higher minimum wage.
 - *San Jose Law (2013)*: increase of \$2.00 per hour and 25 percent over 12 months.
 - *Richmond and Berkeley Proposals (2014)*: similar dollar increases to Oakland but phased in over 42 months and 27 months respectively. They include several exemptions and other provisions to reduce unintended effects on small businesses, non-profits, and youth trainees.
 - *San Francisco Ballot Measure (2014)*: \$4.00 per hour and 36 percent increase over 41 months, with annual increases of 6 to 11 percent.

A Minimum Wage Policy for Oakland

- ◆ Modifications could provide a better balance between (a) the significant benefits of a \$12.25 minimum wage for workers, and (b) allowing businesses to adjust and support continued economic activity and job growth without unintended consequences. They could include:
 - Phasing-in increases more gradually over time; annual increases in the range of 5 to 12 percent per year could work best and would be consistent with nearby cities.
 - Exemptions and/or a longer phase-in period or grace period for small businesses and non-profits, and employers paid by Federal/State grants on a reimbursement basis, allowing these organizations to adjust in a sustainable manner.
 - Exemptions or an established lower wage for youth in summer and/or training programs.
 - A more coordinated, regional approach to minimum wage policy in the East Bay to reduce potential competitive disadvantages between Oakland and nearby cities.

ECONOMIC IMPACT ASSESSMENT OF PROPOSED MINIMUM WAGE INCREASE IN OAKLAND

I. INTRODUCTION

Recent decades have been hard on American workers, particularly those earning at or near minimum wage. Wages have not kept pace with inflation and the growing costs of goods and services, making it difficult to maintain or improve one's standard of living. Proposals to raise the Federal minimum wage continue to be debated. In California, the State minimum wage is above the Federal level and is scheduled to increase on July 1, 2014 and again on January 1, 2016. At the same time, there are increasing efforts to adopt City minimum wage laws to address concerns that the Federal and State efforts to raise the minimum wage do not go far enough, and that the high costs of living in the Bay Area require higher wages.

In Oakland, an initiative to establish a citywide minimum wage has qualified for the November 2014 ballot. To address the pros and cons of raising the minimum wage under the ballot Initiative proposal ("the Initiative"), an economic impact assessment was prepared for the City of Oakland. The assessment focuses specifically on impacts within Oakland from the perspectives of its workers, its business community, and its economy overall. The effort has been fast-tracked to provide data as Oakland policymakers and stakeholders consider the Initiative. The economic impact assessment draws from other relevant economic research, the experience of other communities with city minimum wage laws, and information and data specific to Oakland's economy and its competitive position within the Bay Area region.

This report summarizes the findings of the economic impact assessment. It is organized to address the following:

- II. The Initiative Proposal.
- III. Wage Benefits and Impacts For People Working in Oakland and Increased Spending.
- IV. Cost Impacts on Businesses in Oakland.
- V. Potential Economic Impacts on Businesses Activity and Employment in Oakland.
- VI. Oakland Initiative Proposal Compared to California and Other Bay Area Cities: Amount, Phase-in Period, and Exemptions.
- VII. Modifications to Oakland Initiative Could Be Beneficial

Appendices:

- Comparison of Current Minimum Wage Laws
- Comparison of Proposed Minimum Wage Increases in the Bay Area
- Government Data Sources for Estimating Workers Affected

II. THE MINIMUM WAGE PROPOSAL FOR OAKLAND

The local Initiative proposes the following:

◆ ***Oakland Minimum Wage***

Adoption of a \$12.25 per hour minimum wage in the City of Oakland beginning on March 2, 2015. Thereafter, on January 1st, the minimum wage would increase each year based on increases in the cost of living for the prior year (based on the Consumer Price Index for urban wage earners and clerical workers for the San Francisco-Oakland-San Jose, CA metropolitan statistical area).

◆ ***Paid Sick Leave***

Requirement that employers provide one hour of paid sick leave for every 30 hours worked, capped at 40 hours for those who work for small employers (less than 10 employees), or 72 hours for employees of other employers (10 or more employees). Paid sick leave will begin to accrue as of March 2, 2015.

◆ ***Hospitality Businesses Service Charges***

Requirement that hospitality employers who collect service charges from customers pay all service charges to their hospitality workers. Hospitality employers are defined as employers who own, control, or operate any part of a hotel, restaurant, or banquet facility in Oakland.

This assessment of economic impacts focuses on the \$12.25 per hour City minimum wage proposal (first item above).

Proposed Increase in the Minimum Wage in Oakland

The State mandated minimum wage in California currently applies in Oakland. The California minimum wage is currently \$8 per hour. It will go up to \$9 per hour on July 1, 2014 and to \$10 per hour on January 1, 2016. If the Initiative is passed, implementation of a higher City minimum wage would replace the State minimum wage in Oakland.

The Initiative proposes increasing the minimum wage in Oakland to \$12.25 per hour on March 2, 2015. That would occur as follows. First, the planned \$1.00 per hour increase in the State minimum wage would occur on July 1, 2014 as has been planned (a 12.5 percent increase). It would be closely followed by an additional increase, per the Initiative, of \$3.25 per hour as of March 2, 2015 (an additional 36 percent increase).

In total, a higher minimum wage of \$12.25 per hour in Oakland by March 2015 would represent a total increase of \$4.25 per hour over the current minimum wage, and a 53 percent increase over eight months. Beginning in January 2016, the minimum wage would continue to increase each year thereafter based on increases in the cost of living. The proposal is summarized in Table 1.

Table A-2 in the Appendix shows how Oakland’s minimum wage would increase year to year under the Initiative.

**TABLE 1
INCREASE IN THE MINIMUM WAGE IN OAKLAND
UNDER PROPOSED INITIATIVE**

CA State Minimum Wage	\$ 8.00 per hour	Currently
	\$ 9.00 per hour	July 1, 2014
Oakland Proposed Minimum Wage	\$12.25 per hour	March 2, 2015
Increases in Oakland: July 1, 2014	+ \$1.00 per hour	State increase
March 2, 2015	+ \$3.25 per hour	Initiative
Total Increase 7/1/14 - 3/2/15	+ \$4.25 per hour + 53 percent	Over 8 months
Annual cost of living increases thereafter on January 1 st each year		

NOTE: The State mandated minimum wage in California currently applies in Oakland and throughout the State. The Federal minimum wage of \$7.25 per hour is below California’s minimum wage. If the Initiative is passed, the higher Oakland minimum wage would replace the State minimum wage in Oakland.

The wage increases associated with a higher minimum wage would be very beneficial for workers in Oakland. Businesses could be concerned about the large increase in minimum wage over a short period of time. This report explores the benefits and costs from each perspective, as well as from the broader perspective of the City’s economy and its economic development and overall competitiveness.

III. WAGE BENEFITS AND IMPACTS FOR PEOPLE WORKING IN OAKLAND AND INCREASED SPENDING

The primary benefits of the proposed Minimum Wage Initiative would be higher hourly wages for many people working in Oakland. The higher earnings would support an improved standard of living for affected workers and their families and begin to address the widening income gap between the working poor and middle and upper income workers. New research of the effects of minimum wage increases documents reductions in family poverty rates and enrollments in public assistance programs, such as food stamps. Studies also show that increases in the minimum wage result in improved worker satisfaction, leading to improved worker retention and productivity.

Order-of-magnitude estimates were developed of the number of workers who could be directly affected by the proposed increase in the minimum wage to \$12.25 per hour in Oakland. Directly affected workers are those whose wages could otherwise have been below the new Oakland minimum wage and who therefore could receive a higher wage. The estimates are based on employment in Oakland in 2014 and draw from a number of data sources for 2011-2014¹. The direct effects are identified based on increases in the minimum wage from the current \$8.00 per hour to the proposed \$12.25 per hour, including the \$1.00 per hour increase in the State minimum wage and the additional \$3.25 per hour local increase to reach the higher \$12.25 per hour minimum wage in the Initiative. The estimates of direct effects have not yet considered possible job losses as a result of the higher minimum wage under the Initiative. Those effects are addressed later in this report.

Oakland's Workers Who Could Benefit Directly

Numbers and Proportion of Workers to Be Directly Affected

As shown on Table 2, it is estimated that the hourly wages of about 57,000 people, or 27 percent of the people working in Oakland could increase with a higher minimum wage set at \$12.25 per hour (see Table 2).

- ◆ ***Workers Earning At/Near Current Minimum Wage***

About 29,000 workers, representing 14 percent of the people working in Oakland, are paid at or near the current minimum wage of \$8 per hour. The wages of these workers would increase substantially, to \$12.25 per hour under the Initiative proposal.

- ◆ ***Workers Currently Earning Between \$8.00 and \$12.25 Per Hour***

In addition, hourly wages would also increase for about 28,000 people now earning above the current minimum wage (\$8.00 per hour) but below the proposed, higher minimum wage of \$12.25 per hour. The hourly wages for this group, representing about 13 percent of the people working in Oakland, would increase by larger and smaller amounts depending on the differences between current hourly wages and the proposed new \$12.25 minimum wage.²

¹The approach and sources are identified in the Appendix.

²For example, the wages for a worker earning \$10.00 per hour now would increase by \$2.25 per hour, while the wages for someone earning \$11.00 per hour currently would increase by \$1.25 per hour.

**TABLE 2
ESTIMATED NUMBER OF WORKERS IN OAKLAND
WHOSE WAGES COULD INCREASE
WITH A MINIMUM WAGE INCREASE FROM \$8.00 TO \$12.25 PER HOUR**

	Estimated Number of Workers	Percent of Jobs in Oakland
DIRECT EFFECTS		
Those earning at/near current minimum wage of \$8.00 per hour whose wage would increase to \$12.25 per hour	29,400	14%
Those earning between current minimum wage of \$8.00 and new minimum wage of \$12.25 per hour, whose wages would increase	27,900	13%
Total Direct Effects	57,300	27%
INDIRECT EFFECTS		
Those earning between new minimum wage of \$12.25 and about \$14.70 per hour, whose wages could increase to maintain some of current relative wage scale /a/	9,900	5%
TOTAL DIRECT AND INDIRECT IMPACT	67,200	32%

NOTE: Above estimates are based on jobs in Oakland in 2014, and have not incorporated consideration of possible job losses as a result of the higher minimum wage. The estimated numbers of workers affected include those working full time and part time.

/a/ Indirect effects are estimated for workers currently earning up to about 20 percent above the minimum wage, up to about \$14.70 per hour.

Source: Hausrath Economics Group based on sources identified in the Appendix.

Demographic Characteristics of Workers Directly Affected

As shown in Table 3, of the workers who would directly benefit from the proposed increase in the minimum wage, about half are ages 30 to 54, about 30 percent are under 30, and about 20 percent are 55 and over. As for race, about half are white and half are Asian, Black/African-American, and other races. About 20 percent are of Hispanic/Latino ethnicity. Fifty-five percent are female.

When compared to all people working in Oakland, those who earn lower wages and who would directly benefit from the proposed increase in the minimum wage have the following differences in demographic characteristics:

- They are younger.
- They are less educated.

- They include proportionately more African American workers and less white workers
- They also include proportionally more women than men, and proportionally more Asian and Hispanic/Latino workers, although the differences are relatively small for these characteristics.

The comparisons of demographic characteristics are presented in Table 3.

Place of Residence of Workers Directly Affected

About one-half of the workers that would benefit from higher wages as a direct effect of the Initiative live in Oakland, and about one-half live in other cities throughout the region. Businesses in Oakland hire workers from the larger, regional labor market, and Oakland residents seek jobs throughout the region. Compared to all workers in Oakland, a larger share of those who earn lower wages live in Oakland, about one-half compared to 36 percent overall.

Oakland Workers Who Could Benefit Indirectly

When the minimum wage increases, the wages of some of the workers earning above the minimum wage are also likely to increase to maintain relative pay differentials, particularly with the large change proposed for the minimum wage in Oakland. For example, someone earning \$12.25 per hour currently is likely to have more responsibility and experience than an entry-level worker earning the current minimum wage of \$8.00 per hour. If the minimum wage for entry level workers increases to \$12.25 per hour as proposed, the wages for workers currently earning around and somewhat above \$12.25 per hour are likely to also increase to maintain some of the relative pay differentials associated with different responsibilities and expertise. This *indirect effect* may not happen immediately, but is likely to occur.

As also shown on Table 2, it is estimated that the indirect effect on wages could impact workers currently earning at or near the new minimum wage (\$12.25) and those earning up to about 20 percent above the new minimum (up to about \$14.70 per hour). This group is estimated to include up to an additional 9,900 workers (about five percent of total jobs) whose wages could increase above the new minimum wage to maintain some of the current, relative wage scale. These workers would be *indirectly affected* by the higher minimum wage proposal.

Therefore, in total, approximately 67,000 workers in Oakland could see an increase in hourly wages, either directly or indirectly.

**TABLE 3
CHARACTERISTICS OF WORKERS IN OAKLAND WHOSE
WAGES COULD INCREASE WITH PROPOSED MINIMUM WAGE INCREASE
IN COMPARISON TO THOSE FOR WORKERS NOT DIRECTLY AFFECTED**

	<u>Workers Directly Affected by Minimum Wage Increase from \$8.00 to \$12.25 per hour</u>	<u>Workers Not Directly Affected</u>	<u>All Oakland Workers</u>
	Percentages	Percentages	Percentages
Worker Age			
29 or less	29%	13%	17%
30 to 54	49%	63%	60%
55 and over	22%	24%	23%
Worker Sex			
Female	55%	50%	52%
Male	45%	50%	48%
Worker Educational Attainment			
Less than high school	15%	8%	10%
High school equivalent	16%	14%	15%
Some college or associate degree	22%	27%	25%
Bachelor's or advanced degree	18%	38%	33%
NA (workers aged 29 or younger)	29%	13%	17%
Work Race			
White alone	50%	60%	57%
Black or African American alone	22%	15%	17%
Asian alone	24%	21%	22%
Other alone	1%	1%	1%
Two or more race groups	3%	3%	3%
Worker Ethnicity			
Hispanic or Latino	19%	16%	17%
Not Hispanic or Latino	81%	84%	83%
Worker Place of Residence			
Oakland resident	51%	31%	36%
Not Oakland resident	49%	69%	64%

Source: Hausrath Economics Group based on sources identified in the Appendix

Increased Competition for Jobs With Higher Wages in Oakland

Higher hourly wages would increase the desirability of jobs in Oakland compared to similar jobs in nearby cities with a lower minimum wage. There could be about a 30 percent differential in the minimum wage between Oakland and nearby cities covered by the lower, State mandated minimum wage. Therefore, the competition for lower-wage jobs in Oakland would increase, likely providing more applicants with a broader range of skills and experience for jobs in Oakland businesses.

Increased competition could also mean that workers with less skills and experience could have more difficulty securing employment in Oakland.

Increased Spending For Goods and Services Across the Region

Raising the minimum wage would result in additional spending by workers with higher earnings. The additional spending would increase demand for goods and services. The benefits in stimulating the economy would occur across the region as well as in Oakland; about half of the workers to be directly affected live and primarily shop outside of Oakland, and some of the spending by Oakland residents would occur in nearby cities. Increased spending during the work day could occur in Oakland.

The increased spending by affected workers would be somewhat offset by reduced spending due to other effects of the Initiative. These could include reduced spending by businesses and owners who absorb part of the cost of the wage increases through lower salaries and/or lower profits, by workers whose jobs or hours may be cut, and/or by reduced spending by other consumers to the extent that the costs of wage increases are passed on through of higher prices.

IV. IMPACTS ON BUSINESSES IN OAKLAND

Higher wages paid to workers in Oakland would mean higher costs for Oakland businesses and other organizations (non-profits and government). The amount of increase in the minimum wage and the time over which it can be phased would make a significant difference in how well and how quickly businesses can adjust to the higher costs.

Most Impacts Focused on Businesses in Five Industry Sectors in Oakland

As shown on Table 4, among businesses in Oakland, those whose labor costs would be most impacted by the proposed minimum wage increase would be in the following industry sectors, listed in order of the percentage of workers impacted:

- ***Other Services*** (repair and maintenance, personal care and laundry, religious/civic/social organizations and non-profits, etc.);
- ***Food Services and Accommodations***;
- ***Administrative and Support Services*** (office administrative, business support, security, and building services) and waste management and remediation services;

- **Retail Trade;** and
- **Arts, Entertainment, and Recreation.**

Businesses and organizations in these five industry sectors employ 51 percent of the lower wage workers whose wages could increase as a *direct* result of the proposed minimum wage Initiative, although they account for only 28 percent of total employment in Oakland. As a result, the share of workers to be directly affected by the higher Minimum Wage Initiative ranges from 40 percent to 60 percent for these sectors. Further, labor costs represent a large share of total costs for many of the businesses in these industry groups. Thus, businesses in these sectors are anticipated to face the largest increases in labor costs.

The estimate of Oakland's workers to receive higher wages under the proposed Initiative (from Table 2) would be distributed among business/industry sectors as summarized in Table 4. For each sector, the estimated number of workers to receive higher wages are shown, along with the percentage they represent of the total workers in that sector in 2014. The five sectors identified above are highlighted in bold as they have the largest shares of workers who could receive higher wages. The chart in Figure 1 provides more detail about the types of businesses that are included in each sector in Oakland.

Overall, in Oakland, the five sectors to be impacted the most include a mix of businesses located throughout the city. They include many small businesses, often owned by local entrepreneurs. They include businesses that are owned by, employ, and serve different racial and ethnic groups. The mix of small, independent businesses includes many restaurants and eating places, many small retail stores, and a large number of businesses providing a variety of services to residents and businesses throughout Oakland. The largest number of workers impacted are in the "Other Services" sector, a group of businesses including neighborhood services such as personal care (hair salons, laundry, etc.), auto repair, social and religious organizations, and private household services.

**TABLE 4
EFFECTS OF PROPOSED MINIMUM WAGE INCREASE FROM \$8.00 TO \$12.25
ON OAKLAND BUSINESS/INDUSTRIES IN DIFFERENT SECTORS**

Business/Industry Sector (NAICS)	Direct Effects		Indirect Effects	
	Estimated Number Workers with Wage Increases	Percent of Total Workers in Sector	Estimated Number of Workers with Wage Increases	Percent of Total Workers in Sector
Agriculture, Forestry, and Mining	160	44%	60	15%
Construction	1,490	20%	310	4%
Manufacturing	1,860	24%	510	6%
Wholesale Trade	1,370	19%	400	3%
Retail Trade	4,670	40%	850	7%
Transportation and Warehousing & Utilities	3,370	18%	800	4%
Information	330	11%	70	2%
Finance and Insurance	850	19%	210	5%
Real Estate and Rental and Leasing	890	35%	160	6%
Professional, Scientific, and Technical Services	2,250	15%	460	3%
Management of Companies and Enterprises	750	8%	210	2%
Administrative & Support Services, Waste Mgmt.	5,120	43%	940	8%
Educational Services	7,510	25%	1,250	4%
Health Care and Social Assistance	6,150	19%	1,570	5%
Arts, Entertainment, and Recreation	2,150	41%	140	3%
Accommodation and Food Services	6,870	54%	840	7%
Other Services	10,390	60%	830	5%
Public Administration	1,120	7%	290	2%
All Sectors	57,300	27%	9,900	5%

Source: Hausrath Economics Group based on sources identified in the Appendix.

**FIGURE 1
TYPES OF BUSINESSES IN INDUSTRY SECTORS
TO BE THE MOST AFFECTED BY
HIGHER MINIMUM WAGE IN OAKLAND**

◆ **Other Services**

- Repair and maintenance
- Personal care and laundry
- Religious, grant making, civic, advocacy, social and other organizations
- Parking lots and garages
- Private household services

◆ **Accommodation and Food Services**

- Restaurants
- Other eating places
- Drinking places
- Caterers and mobile food services
- Hotels and motels

◆ **Administrative and Support Services/Waste Management**

- Office administrative services (financial, billing, accounting, Personnel, logistics)
- Employment services (placement, search, temps)
- Business support services (copy centers, telemarketing, collection agencies, document preparation, word processing)
- Investigation, guard, and security services
- Services to buildings and dwellings (janitorial, landscaping)
- Travel arrangements; convention and visitor bureau
- Waste management and remediation services

◆ **Retail Trade**

- Food and beverage stores
- Drug and personal care stores
- General merchandise stores
- Clothing, accessories, and specialty stores
- Home goods and furnishings stores
- Building materials and hardware stores
- Service stations, auto dealers

◆ **Arts, Entertainment, and Recreation**

- Performing arts
- Spectator sports
- Museums, zoos, botanical gardens
- Golf courses, marinas
- Fitness and recreation centers
- Amusements

Source: Hausrath Economics Group

Data for establishments in Oakland show that the large majority of businesses are small in the five industry sectors to experience the largest wage increases with a higher minimum wage in Oakland.

As summarized in Table 5, 62 percent to 80 percent of the businesses in these five sectors have less than 10 employees. About half, 42 to 62 percent, are businesses with four or fewer employees. Thus, the costs of most of the wage increases for workers in these sectors would be borne by small businesses throughout Oakland. Small businesses in these sectors are typically not large profit-generators.

**TABLE 5
BUSINESS/INDUSTRY SECTORS TO BE MOST AFFECTED
BY HIGHER MINIMUM WAGE IN OAKLAND**

	<u>Other Services</u>	<u>Accommodation & Food Services</u>	<u>Admin & Support Services/Waste Mgmt</u>	<u>Retail Trade</u>	<u>Arts, Ent. & Recreation</u>
2014 Employment /a/	17,430	12,740	11,970	7,360	5,260
<u>Direct Effects /b/</u>					
Estimated No. Workers with Wage Increases	10,390	6,870	5,120	4,670	2,150
Percent of Total Workers	60%	54%	43%	40%	41%
<u>Indirect Effects /b/</u>					
Estimated No. Workers with Wage Increases	830	840	940	850	140
Percent of Total Workers	5%	7%	8%	7%	3%
<u>Small Businesses In Sector /c/</u>					
1 to 9 Workers	80%	62%	70%	70%	63%
1 to 4 Workers	62%	42%	55%	56%	50%

/a/ Hausrath Economics Group as described in the Appendix.

/b/ See Table 4.

/c/ U.S. Census Bureau, County Business Patterns, 2011 data for Oakland zip codes.

Source: Hausrath Economics Group

In these five sectors, larger businesses and chain businesses occur primarily in the retail trade sector and in the category of accommodations and food services. Examples of the larger businesses include the supermarkets (some are unionized and pay higher wages), the large big box stores (Walmart, Home Depot), the chain drug stores (Walmart, RiteAid, CVS), larger retail stores (CostPlus, Sears, Smart & Final, Best Buy), hotels and motels, and mid-size restaurants.

The establishments that are part of larger chains often follow wage and pricing policies of the larger company.

These sectors also include non-profit businesses/organizations in the arts, recreation, education, religious, civic, advocacy, and social pursuits. They are often grant-funded or government funded, with funding extending over several years. They sometimes employ people who can have difficulty finding work (youth, foster kids, the disabled).

In addition to those five sectors, there also are large numbers of workers in businesses and organizations/government in the educational services and health care and social assistance sectors whose wages also would increase. (See Table 4.)

Ability of Businesses to Pay Higher Wages Depends on Amount of Increase, Timing, and Market Context

Higher wages for Oakland workers would be paid by the Oakland businesses employing those workers. In addition to the higher wages, there also would be associated higher payroll taxes, and potentially higher operating costs over time due to higher wages in other industries. The higher costs must be offset by higher revenues (higher prices), cost savings from labor with higher wages, and/or lower costs. The chart in Figure 2 identifies possible ways for businesses to adjust to the higher costs.

In the short term, it can be difficult for businesses to adjust, as prices, contracts, and commitments may have already been established. Over time, there can be more ability to increase prices/revenues, recognize possible cost savings from less turnover and more efficient workers who are paid higher wages, consider adjustments for higher paid workers, and adjust work hours and employment levels, if needed.

The ability to adjust over time depends on the market context as well. For example, businesses whose customers are sensitive to price increases (demand declines as prices go up) could have trouble increasing revenues, whereas other businesses may not. It could be difficult to raise prices in Oakland above those at competitive businesses in adjacent cities with minimum wages at the lower, State mandated level.

The amount of increase in the minimum wage and the time over which it can be phased would make a significant difference in how well and how quickly businesses can adjust.

**FIGURE 2
POSSIBLE EFFECTS OF HIGHER MINIMUM WAGE
ON OAKLAND BUSINESSES**

Higher Business Costs	Possible Ways of Covering Higher Costs
<ul style="list-style-type: none"> -Higher Wages -Higher employer taxes on higher wages (social security, Medicare, etc.) -Potentially higher operating costs if rents and costs of other goods and services increase due to higher wages in those industries 	<ul style="list-style-type: none"> - Lower profits/earnings - Higher prices/revenues - Cost savings from less turnover and more efficient workers who are paid higher wages - Reduced hours of employment; fewer jobs - Defer/eliminate expansion plans - Substitution of more productive, for less-productive workers - Lower increases in wages over time for workers paid above those affected by new minimum wage - Contracting out some business functions

V. POTENTIAL ECONOMIC IMPACTS ON BUSINESS ACTIVITY AND EMPLOYMENT IN OAKLAND

There could be some level of trade-off between the amount and rate of increase in the minimum wage, and the retention and growth of business activities in Oakland and the job opportunities they provide. Currently, Oakland's economy is recovering from the Great Recession, and momentum is building for future growth and development. The city's many assets are becoming more recognized, and Oakland is attracting business activity at least partly because it is a less costly place to do business than across the Bay in San Francisco. Recovery of Oakland's and the East Bay's economy has lagged behind stronger growth in San Francisco and the South Bay. It also continues to be difficult to attract economic development to parts of Oakland with residents and communities that have been passed over in the past.

The following addresses the potential for near-term and longer-term impacts of the Initiative proposal on business activity and employment in Oakland. Two important factors influencing the potential for economic impacts include (a) the large increase in the minimum wage over a short period of time, and (b) the fact that nearby cities with which Oakland competes as well as most other cities in the region would retain the lower State mandated minimum wage.

**Near-term Impacts as Businesses Adjust to Increase in Wage Costs
Over a Short Period of Time**

Initially, business activity and employment are anticipated to decline somewhat as businesses “scramble” to adjust to the large increase in the minimum wage over a short period of time. It is likely that hours and/or jobs would be reduced, at least for a period of time, and business expansion plans would be put on hold. Some businesses may consider closing their Oakland location, and there could be some, particularly small businesses, that go out of business because of the higher wage costs.

Impacts on Business Costs

Estimates of the potential impacts of the proposed minimum wage increase on business costs were developed for businesses in the five industry sectors to be most affected. Table 6 summarizes the analysis.

Overall, with the higher minimum wage under the Initiative, labor costs for these sectors are anticipated to increase from 17 to 26 percent, depending on the industry. These total increases in labor costs would represent from 2 to 11 percent of total business revenues. The percentages are lowest for retail businesses (2 to 2.5 percent) and highest for service businesses (8 to 11 percent). Restaurants and food services, and establishments in the arts, entertainment, and recreation sectors fall in-between (5 to 7 percent). These percentages are large and indicate the significance of the higher labor costs as a share of total business revenues. The percentages also indicate how much revenues/prices would have to increase if they were to cover all of the higher labor costs.

Table 6 also compares the increase in labor costs to a likely profit margin for businesses in these sectors. In nearly all cases, the increase in labor costs would exceed the profit margin, indicating that even if businesses reduced profits to zero in the short term, that would not provide enough funding to cover the higher labor costs. Therefore other adjustments would still be required. That finding is an important indicator that businesses in these sectors could have difficulty initially adjusting to the large increase in the minimum wage that is proposed. It also indicates that substantial adjustments would be needed over time (cost savings from labor, higher prices, lower costs) as businesses need to earn a competitive return in Oakland over the longer term if investment and business activity are to continue to be attracted to Oakland.

TABLE 6
EXAMPLES OF POTENTIAL IMPACTS ON BUSINESS COSTS

Business/Industry Sector	Existing Conditions				Increase in Labor Costs From Higher Minimum Wage		
	Total Revenue %	Labor Costs /a/ %	Other Costs /b/ %	Profit Margin /b/ %	Increase in Labor Costs /c/ %	Increase as Percent of Revenue /d/ %	Increase as Percent of Profit Margin /e/ %
Other Services							
Personal care services	100	44	52	4	26%	11.4%	285%
Dry cleaning & laundry serv.	100	35	61	4	26%	9.1%	228%
Civic, social, advocacy, labor, & other orgs.	100	31	65	4	26%	8.1%	203%
Food Service & Drinking Places	100	31	65	4	22%	6.8%	170%
Full service restaurant	100	34	62	4	22%	7.5%	188%
Limited service eating places	100	28	68	4	22%	6.2%	155%
Admin & Support Services							
Office admin services	100	48	48	4	19%	9.1%	228%
Business support services	100	42	54	4	19%	8.0%	200%
Security services	100	55	41	4	19%	10.5%	263%
Services to buildings.	100	42	54	4	19%	8.0%	200%
Retail Trade	100	11	85	4	17%	1.9%	48%
Small Stores/Shops	100	15	81	4	17%	2.5%	63%
Arts, Ent., & Recreation							
Performing Arts, Spec. Sports	100	40	56	4	17%	6.8%	170%
Museums, zoo, parks	100	37	59	4	17%	6.3%	158%
Amusements, recreation	100	30	66	4	17%	5.1%	128%

NOTE: Data are order-of magnitude examples to illustrate the potential impacts on business costs of increased labor costs from a higher minimum wage.

/a/ U.S. Census Bureau, Economic Census, Industry Series to identify labor as share of total revenue. Includes payroll and payroll taxes (excludes health and other benefits).

/b/ Profit margin is assumed percentage applicable for the types of businesses in the industries to be most affected (per Tables 4 and 5). Other operating costs are the residual.

/c/ Combines the increased wages for workers affected directly and indirectly for each industry sector with the share of workers not affected to show total increase in labor costs.

/d/ Compares revenue shortfall from higher labor costs to total revenue currently. Identifies revenue increases required, if prices were to fully cover increases in labor costs.

/e/ Compares revenue shortfall with current profit margin. A percentage greater than 100 indicates that reducing profit margins to zero would not cover increases in labor costs.

Source: Hausrath Economics Group

Near-term Adjustments Anticipated

The following business effects are anticipated, at least to some degree in the initial years, as businesses adjust to the higher minimum wage. Relevant factors and constraints are identified.

◆ ***Cost Savings from Labor.***

Businesses may benefit from cost savings that are likely to occur as a result of reduced turnover and improved efficiency of the workers to receive higher wages. Other studies have identified these benefits which would become more evident over time. However, they are not anticipated to offset the immediate increase in labor costs under the Initiative proposal.

◆ ***Lower Business Profits.***

Lower business profits would occur and could help absorb higher labor costs in the short term, although many of the businesses likely to be the most affected (per the earlier discussion) do not have large profit margins. As described above, the increases in labor costs would be greater than profit margins in many cases so that other adjustments would also be required. In the longer term, profit margins in Oakland need to be competitive to retain and attract investment and business activity in the city.

◆ ***Higher Prices/Revenues.***

Business owners would attempt to raise prices as much as possible to increase revenues and pass-on higher costs to consumers. As described above, price increases of from 2 to 11 percent could be required to fully cover higher labor costs. However, there are varying abilities to raise prices, depending on type of business and markets served. In many cases, it could be difficult to raise prices in Oakland above those for competitive businesses in nearby cities, with lower wage costs. It also would be difficult for businesses whose customers are sensitive to price increases (demand declines as prices go up), particularly for many of the neighborhood-serving businesses described in Table 4 and Figure 1.

◆ ***Reduced Hours or Jobs/Lower Labor Costs***

In addition to the adjustments above, it is likely that some employers would have to reduce employee hours and/or reduce staffing levels to fully cover the higher wage costs, at least for a period of time. Over the longer term, other adjustments also are likely including lower increases in wages for workers paid above minimum wage and/or contracting out some business functions. Effects on employment are more likely in businesses with large shares of workers who would require raises, and where wage costs represent a large share of total business costs.

◆ ***Limits on Expansion Plans.***

Faced with higher wage costs and a period of adjustment, some affected businesses would put expansion plans on hold. Some may still undertake expansion in the future, while others may look to locations in other cities instead of Oakland, particularly cities with lower wage costs.

◆ ***Closure of Oakland Location/Business or Relocation.***

Some businesses may consider closing their Oakland location, and there could be some, particularly small businesses, that go out of business because of the higher wage costs. It also is possible that some businesses could relocate to another city. An Oakland employer may be recruited by other cities to relocate or expand in their jurisdictions and benefit from lower wage costs.

The Oakland Metropolitan Chamber of Commerce conducted a minimum wage survey of Oakland businesses in early 2014. It provides information about the concerns and possible responses of local businesses to the higher minimum wage proposal, although it was not a representative, random sample survey. When asked “How will your organization likely respond to an increase in the minimum wage?”, the answers selected most frequently were the following, in order of frequency (respondents were to select all responses that applied):

- Increase prices
- Reduce employee hours
- Reduce staffing levels
- Limit future expansion plans

The Chamber survey includes responses from 142 businesses representing approximately 11,000 jobs in Oakland. Most survey respondents (75 percent) were smaller enterprises with 50 or fewer employees. Most (78 percent) pay wages from \$8-12 per hour and would be impacted by the Initiative.

**Longer-term Impacts Due to
Higher Costs of Doing Business in Oakland**

Over time, general economic growth in Oakland could offset the initial declines in business activity that occur as businesses adjust to the higher wage costs. However, longer term economic growth in Oakland would still be somewhat lower than otherwise anticipated without the Initiative, a result of higher costs of doing business and higher prices for some goods and services in Oakland, both absolutely and in comparison to other cities in the region that remain under the State minimum wage or under lower minimum wage policies. The magnitude of economic impact is difficult to estimate and also depends on other economic factors influencing Oakland’s and the region’s economy, and on whether the fairly large differential in wage costs between Oakland and nearby cities is maintained over time or not.

How Oakland Businesses Could Be Impacted

Within the impacted industries, the effects of a higher minimum wage could differ depending on size and type of business, markets served, extent of competition with establishments in other cities, whether a local, independent business or part of a larger company with establishments in other cities, and whether the business/organization is largely funded by grants and/or Federal/State governments.

The chart in Figure 3 identifies four categories of possible effects on Oakland businesses, and it identifies the types of businesses in each group. The descriptions provide examples of the types of effects that could occur.

Overall Effects on Economic Activity and Employment

Overall, this assessment concludes that there would be some level of trade-off between the amount and rate of increase in the minimum wage in Oakland, and the retention and growth of economic activity and job opportunities paying the higher wages. It is very likely that the Initiative proposal would result in somewhat lower growth of economic activity and employment in Oakland compared to a scenario assuming continuation of the State mandated minimum wage, or a scenario with a lower and/or slower increase in the minimum wage above the State level.

Among economic sectors, the short-and longer-term effects of the Initiative on economic development and employment growth in Oakland are summarized to include the following:

- Could affect the viability of some small businesses and independent merchants, particularly in retail, food service, and service businesses.
- Could make it more difficult to retain and attract smaller service businesses that compete with businesses in nearby cities.
- Could make it more difficult to attract retailers to Oakland, particularly those that are part of larger companies.
- Could slow the expansion of new restaurants and eating places.
- Could make it more difficult to retain and attract smaller manufacturing and distributors of food and beverages and other products and supplies;
- Could affect the viability of some non-profits and other organizations that are grant- and government-funded and operate on tight budgets.
- Could adversely affect Oakland's image as a place to do business due to being one of the highest minimum wage cities.

FIGURE 3
EXAMPLES OF OAKLAND BUSINESSES THAT
COULD BE IMPACTED BY THE INITIATIVE PROPOSAL

- ◆ **Businesses That Could Have Difficulty Raising Prices or Reducing Profits and Other Costs Enough to Offset Higher Labor Costs**
 - Smaller, local businesses serving local residents/customers (including retail, food service, and personal service businesses). Many serve ethnic/racial communities, lower-income neighborhoods, and other small businesses.
 - Independent merchants competing with chains or internet outlets. Examples include independent book stores, small electronics stores, etc.
 - Smaller service business competing with businesses outside Oakland (such as janitorial or security businesses).
 - Food and beverage manufacturing and distribution and other smaller, light industrial businesses that are already facing high costs for space in central locations near to the markets they serve.

 - ◆ **Businesses That Are More likely to Raise Prices Over Time, But Who May Consider Other Cities for Growth and Expansion**
 - Smaller and mid-size businesses with strong customer loyalty and unique identities. Some serve upscale markets. (Examples include restaurants and eating places.)
 - Businesses serving Oakland residents as well as attracting customers and visitors from a larger area.
 - Businesses serving workers in Oakland (such as downtown eating places and bars).

 - ◆ **Retail Chains and Larger Businesses That Are Likely To Consider Locations in Other Cities**
 - Those already located in Oakland may absorb some portion of higher wage costs across larger company operations
 - These will want to maintain consistent prices and wages across establishments in multiple cities.
 - These will consider other locations in nearby cities with lower wage costs to serve Oakland customers; some may relocate.
 - It will be more difficult to attract these comparison goods retailers to Oakland as long as other cities have lower minimum wages.

 - ◆ **Businesses/Non-Profits/Other Organizations With Government and/or Grant Funding That Would Have Difficulty Increasing Revenues to Cover Higher Costs**
 - Non-profits, school district, and others paid through grants or State/Federal funding. Funding cycles cannot easily be changed. Funding may be set based on State/Federal wage assumptions.
 - Arts and recreation organizations (museums, Zoo, Fairyland, etc.) with grant and government funding who seek to keep admission charges as low as possible.
 - Health care and other providers paid primarily through State and Federal grants on a reimbursement basis.
-

VI. OAKLAND INITIATIVE COMPARED TO CALIFORNIA AND OTHER BAY AREA CITIES: AMOUNT, PHASE-IN PERIOD, AND EXEMPTIONS FOR MINIMUM WAGE INCREASES

Review of the minimum wage context in California and the Bay Area indicates that the Initiative proposal for Oakland includes the largest increase in the minimum wage over the shortest period of time with the fewest exemptions. These aspects of the Oakland Initiative increase the potential for local economic impacts and further explain the conclusions above.

Comparison to State and Local Laws

State and Federal Minimum Wages

Currently, the State minimum wage laws apply throughout California except where there is a higher, local minimum wage. They supersede the Federal rules as California law currently mandates a higher minimum wage. In June 2014, the minimum wage in California is \$8.00 per hour. It will soon increase to \$9.00 per hour on July 1, 2014 (a 12.5 percent increase). It will increase to \$10.00 per hour 18 months later, on January 1, 2016 (an additional 11 percent increase). Businesses have been aware of the upcoming increases for some time.

Debate continues in Washington about raising the Federal Minimum Wage with passage of the proposed Fair Minimum Wage Act. If passed, the higher Federal minimum wage would still be below that in California, at least until 2017. As proposed, the Federal minimum wage would increase from its current rate of \$7.25 per hour to \$10.10 per hour in three steps: to \$8.20 soon after approved (13 percent increase), to \$9.15 one year later (11.6 percent increase), and to \$10.10 one year after that (10.4 percent increase). Thereafter, the Federal minimum wage would go up annually by the increase in the cost of living, beginning in 2018. Comparison of the State and Federal minimum wages is shown at the top of Table 7.

Both the State and Federal governments have *proposed minimum wage increases that range from 10 to 13 percent in any one year* (see the Table 8). Their intents have been to increase the minimum wage above the CPI (so as to reduce the “gap” between wages and the cost of living), and by an amount that could be absorbed over time by most businesses without substantial economic impacts. In total, the State minimum wage will increase 25 percent by 2016, while the Federal proposal would provide a 39 percent increase by 2017, if it is approved by October 2014.

TABLE 7
COMPARISON OF MINIMUM WAGES AND PROPOSALS: FEDERAL, STATE, AND BAY AREA

	Jan 2014	July	Jan 2015	Jan 2016	Jan 2017	Jan 2018	Jan 2019
Federal							
Current Law	7.25		7.25	7.25	7.25	7.25	7.25
Proposed /a/	7.25		8.20	9.15	10.10	10.37	10.65
State							
Current Law in CA	8.00	9.00	9.00	10.00	10.00	10.00	10.00
San Francisco							
Current Law since 2004	10.74		11.03	11.33	11.63	11.95	12.27
San Jose							
Current Law since 2013	10.15		10.42	10.71	10.99	11.29	11.60
Oakland Proposal							
Ballot Initiative	8.00	9.00	12.25 <i>(Mar.)</i>	12.58	12.92	13.27	13.63
Berkeley Proposal							
<i>As of 6-11-2014</i>	8.00	10.00 <i>(Oct.)</i>	11.00 <i>(Oct.)</i>		12.53 <i>(Oct.)</i>	12.53 <i>(Oct.)</i>	12.53 <i>(Oct.)</i>
Richmond Proposal							
<i>Approved 6-3-2014</i>	8.00	9.00	9.60	11.52	12.30	13.00	13.35
San Francisco Ballot Measure							
<i>As of 6-10-2014</i>	10.74		11.03	12.25 <i>(May)</i>	13.00 <i>(July)</i>	14.00 <i>(July)</i>	15.00 <i>(July)</i>

NOTE: Where applicable, CPI for Urban Wage Earners and Clerical Workers assumed at 2.7 percent (average for past 15 years in SF-Oak-SJ MSA)

/a/ Calculated assuming passage of Fair Minimum Wage Act by October 2014.

Source: Hausrath Economics Group compiled from a number of sources. Also see Tables A-1 and A-2 in the Appendix.

TABLE 8
SUMMARY OF EXISTING AND PROPOSED INCREASES IN MINIMUM WAGES:
FEDERAL GOVERNMENT, CALIFORNIA, AND BAY AREA CITIES

	Increases Up to Target Amount		CPI Increases Thereafter	Total Increase Over 5 Years from Jan 1, 2014	
	Annual Percentage Increases	Total Increase			
State of California	11 – 12.5%	\$2.00; 25% over 18 mos.	No	\$2.00	25%
San Francisco (2003 Initiative)					
Businesses: 10+ employees	26%	\$1.75; 26% over 12 mos.	Yes	\$2.61	39%
Non-profits and Small Businesses (<10 E) (plus first year grace period)	14 - 15%	\$1.75; 26% over 36 mos.	Yes	\$2.61	39%
San Jose (2012 Initiative)	25%	\$2.00; 25% over 12 mos.	Yes	\$3.29	41%
Federal Proposal	10 – 13 %	\$3.40; 39% over 27 mos.	Yes	\$3.40	47%
Oakland Proposal 2014 Ballot Initiative	36%	\$4.25; 53% over 8 mos. 36% on top of 12.5%	Yes	\$5.63	70%
Berkeley Proposal As of 6-11-2014	10 - 14%	39% on top of 12.5% over 27 mos. Non-profits: 1-yr grace period	No	\$4.53	59%
Richmond Proposal Approved 6-3-2014	5.7- 20%	\$5.00; 44% on top of 12.5% over 42 mos.	Yes	\$5.35	67%
San Francisco Ballot Measure As of 6-10-2014	6 - 11%	\$4.00; 36% over 41 mos.	Yes	\$4.26	40%

Source: Hausrath Economics Group compiled from a number of sources. Also see Tables A-1 and A-2 in the Appendix.

It should be noted that, even with these “measured step” increases, the non-partisan Congressional Budget Office (CBO) has determined that while many low-wage workers would see an increase in their earnings, there would be a reduction in total employment by about 500,000 workers, or 0.3 percent, as a result of businesses being unable to cover the costs of the higher wages.³

Local Minimum Wage Laws in San Francisco and San Jose

San Francisco was one of the first cities in the country to adopt a city minimum wage law in 2003 that took effect in 2004. San Jose followed a similar approach much later, with adoption in 2012 and implementation in 2013. Both cities currently have minimum wages above the State minimum wage in California.⁴

In San Francisco, the minimum wage was increased in one step for many businesses, from \$6.75 (2003) to \$8.50 (2004) per hour, a 26 percent increase, followed by CPI increases each year thereafter. Non-profit and small businesses (less than 10 employees) were exempt in the first year, phased in during year two, and reached the same minimum wage as other businesses in year three. The longer phasing-in period allowed more time for small businesses to adjust to the higher wage costs.

Over the first five years, the total increase in the minimum wage in San Francisco was \$2.61 per hour, an increase of 39 percent (see Table 8). In 2014, the minimum wage in San Francisco is \$10.74 per hour as a result of continuing annual increases in the CPI, as shown in Table 7.

San Jose took a similar approach. The minimum wage was increased in one step, from \$8.00 (2012) to \$10.00 (2013) per hour, a 25 percent increase, to be followed by CPI increases each year thereafter (see Table 8). In 2014, the minimum wage in San Jose is \$10.15 per hour, as shown in Table 7.

Minimum Wage Proposals in the East Bay and San Francisco

New minimum wage proposals are currently pending in several Bay Area cities.

Richmond and Berkeley

In the Inner East Bay, there is the current ballot Initiative to establish a minimum wage in Oakland, as well as legislative proposals being refined to establish minimum wages in Richmond and Berkeley. The proposals in all three cities include minimum wages above the State minimum wage as will be increased, and above the local minimum wages under current law in both San Francisco and San Jose. In addition, the East Bay proposals require *larger increases* in

³ Congressional Budget Office (CBO), *The Effects of Minimum-Wage Increase on Employment and Family Income*, February 2014.

⁴ Nationally, San Francisco and San Jose are among nine jurisdictions (including Washington D.C.) with local minimum wage laws (as of March 2014).

the minimum wage than were experienced when the San Francisco and San Jose minimum wage programs were implemented.

The Richmond and Berkeley proposals are for minimum wages similar in amount to the Oakland Initiative, although each would be phased in over a longer period of time. In addition, as shown in Figure 4 and described below, they include exemptions and other provisions designed to reduce unintended effects on small businesses and non-profits as well as certain classes of workers such as youth trainees. (See Tables 7 and 8.)

◆ ***Richmond Proposal***

The Richmond City Council has approved a city minimum wage that includes a series of annual increases to reach \$13.00 per hour by January 2018. Annual increases are to occur on January of each year and reflect annual increases of 20 percent (including the State and local increases), 20 percent, 6.8 percent, and 5.7 percent.

Small businesses and employers paid primarily through State/Federal grants on a reimbursement basis would be exempt as would Richmond YouthWorks summer program participants. In addition, credit will be given for employer medical plan payments, and an intermediate wage will be set for businesses with more than 50 percent of their income from sales outside of Richmond.

◆ ***Berkeley Proposal***

Berkeley proposes a city minimum wage that includes annual increases to reach \$12.53 per hour by October 2016. There would be an initial increase of 25 percent by October 2014 (State increase plus additional city increase), followed by annual increases of 10 percent and 14 percent.

The Berkeley proposal includes a one-year grace period for non-profits to phase-in and an exemption for youth in job training.

San Francisco Proposal (as of June 10, 2014)

San Francisco, via a November 2014 ballot measure, proposes to increase the City's minimum wage to reach \$15.00 per hour by July 2018. The minimum wage under San Francisco's current law will be approximately \$11.00 per hour on January 2015. From there, the minimum wage would be phased in, increasing 11 percent by May 2015, 6.1 percent by July 2016, 7.7 percent by July 2017, and 7.7 percent to July 2018. The total increase would be \$4.00 per hour over 41 months, an overall increase of 40 percent.

The San Francisco proposal would include a different wage rate for youth trainees and senior subsidized employment.

Table A-2 in the appendix compares how minimum wage proposals in Oakland, Berkeley, Richmond, and San Francisco would increase year to year.

Business and Worker Exemptions and Other Provisions

In addition to the amount and phase-in period for minimum wage increases, exemptions can also affect the economic impacts. The chart in Figure 4 summarizes exemptions, phase-ins, and other provisions of local minimum wage ordinances and proposals in the Bay Area.

◆ ***Exemptions for Small Businesses.***

Small businesses can have more difficulty adjusting to a higher local minimum wage. The San Francisco ordinance (2003) exempted small businesses (less than 10 employees) in year one and provided for phasing-in the wage increase in year two. The Richmond proposal permanently exempts small businesses defined as employers that pay less than 800 hours of employee wages over a two-week period.

◆ ***Phase-ins for Non-Profits.***

Small, non-profits face similar difficulties in adjusting to minimum wage increases as do other small businesses. Non-profits can also face additional difficulties adjusting to higher wages if they are grant funded by foundations, governments, and other sources. There can be long lead-times to apply for funding based on budgeting done earlier, and funding may be provided for several years at a time. The San Francisco ordinance (2003) exempted non-profits in year one and allowed time to phase in higher wages in year two, similar to small businesses. The Berkeley proposal includes a one-year grace period for non-profits to provide a longer phase-in period.

There also can be issues for employers paid primarily through State and Federal grants on a reimbursement basis. The Richmond proposal exempts those employers.

◆ ***Worker Exemptions for Youth in Summer Programs and in Job Training.***

With higher wages for entry level jobs, there could be fewer summer jobs for youth and fewer opportunities for job training. Recognizing the potential for such effects, the City of Richmond's minimum wage proposal exempts Richmond's YouthWORKS Summer Program participants. The City of Berkeley's proposal exempts youth in job training programs. The San Francisco proposal establishes different wage rates for youth trainees (and senior subsidized employment).

FIGURE 4
EXEMPTIONS, PHASE-INS, AND OTHER PROVISIONS OF LOCAL MINIMUM WAGE ORDINANCES
AND PROPOSALS IN BAY AREA

	Business Exemptions	Worker Exemptions	Other Provisions
San Francisco Current Law Since 2004	Non-profit and small businesses (<10 employees) exempt in year one; phased in during years two and three	Those working fewer than 2 hours a week	
San Jose Current Law Since 2013	Employers who neither have a facility in San Jose nor are subject to San Jose business tax State and federal agencies including school districts when work performed is related to their government functions	Those working fewer than 2 hours a week	
Oakland Proposal 2014 Initiative	None	Those working fewer than 2 hours a week	Requires employers to provide paid sick leave Requires hospitality employers who collect service charges from customers to pay all service charges to hospitality workers
Berkeley Proposal As of 06/11/2014	Non-profits to have one-year grace period for phase-in	Youth in job training	
Richmond Proposal Passed 06/03/2014	Small businesses (pay less than 800 hours of employee wages over a two-week period) Employers paid primarily through State & Federal grants on reimbursement basis	Richmond YouthWORKS Summer Program participants (ages 5-21)	Allows employers paying at least \$1.50 per hour per employee towards a medical care plan to receive a \$1.50 deduction from otherwise specified minimum wage Establishes an "Intermediate Wage" at midpoint between City and State minimum wages for businesses that derive more than 50% of their income from sales outside of Richmond.
San Francisco Ballot Measure As of 06/10/14	None		Establishes different rates for youth trainees and senior subsidized employment capped at \$12.25 plus annual CPI adjustment

NOTE: All local laws/proposals include exemptions applicable under State minimum wage law in California. Worker exemptions include: outside salespersons; parent/spouse/child of employer; apprentices regularly indentured under State Division of Apprenticeship; and employees mentally and/or physically disabled and nonprofit organizations that employ them, both with special license from the State. Learners, regardless of age, may be paid not less than 85 percent of State minimum wage during the first 160 hours of work in occupations in which they have no previous experience.

Source: Hausrath Economics Group compiled from a number of sources

◆ ***Other Provisions***

Examples of other provisions that can be included to provide other incentives for employers or to mitigate potential impacts include those in Richmond (see Figure 3). Their ordinance allows a deduction from the minimum wage for employers that provide a medical care plan for employees. It also establishes an “intermediate wage” for businesses that the community is concerned about losing to nearby cities with a lower minimum wage.

VII. MODIFICATIONS TO OAKLAND INITIATIVE COULD BE BENEFICIAL

In Oakland, modifications to the minimum wage proposal could provide a better balance between (a) providing the benefits of a higher minimum wage for workers, and (b) allowing businesses in Oakland to adjust to higher wage costs so as to support continued economic activity and job growth without unintended consequences.

- ◆ **Phasing-in increases in the minimum wage more gradually** over time could make a significant difference. Annual increases in the minimum wage over several years could work best in the range of 5 to 12 percent per year. That pattern is consistent with the current proposals in other cities as described above.
- ◆ **Exemptions and/or a longer phase-in period or grace period, for small businesses and/or non-profits** with less ability to pay higher wage costs could be beneficial as well as exemptions for employers paid through Federal and State grants on a reimbursement basis.
- ◆ **Exemptions or an established lower wage (while still at or higher than the State minimum wage) for youth in summer or other training programs** and for other beneficial employment could also be considered.
- ◆ To the extent possible, **a more coordinated, regional approach** to minimum wage policy in the East Bay makes sense so as to reduce the potential competitive disadvantages that could arise between Oakland and nearby cities that have lower minimum wages.

Appendix

TABLE A-1
ANNUAL AND 5-YEAR INCREASES IN THE MINIMUM WAGE,
UNDER CURRENT LAW IN CALIFORNIA, SAN FRANCISCO, AND SAN JOSE

State of California			Proposed Federal: Minimum Wage Act /a/		
Date	Amount	Percent Increase	Date	Amount	Percent Increase
Jan. 2014	\$8.00		Jan. 2014	\$7.25	
Jul. 2014	9.00	12.5%	Jan. 2015	8.20	13.1%]
Jan. 2016	10.00	11.1%	Jan. 2016	9.15	11.6%] 39% over
Jan. 2017	10.00	-	Jan. 2017	10.10	10.4%] 27 months
Jan. 2018	10.00	-	Jan. 2018	10.37	CPI
Jan. 2019	10.00	-	Jan. 2019	10.65	CPI
Jan. 2014-2019 5 years	\$2.00	25%	Jan. 2014-2019 5 years	\$3.40	46.9%
San Jose			San Francisco - Non-profits & Small Businesses (< 10 empl.)		
Date	Amount	Percent Increase	Date	Amount	Percent Increase
Jan. 2013	\$8.00		Jan. 2003	\$6.75	
Mar. 2013	10.00	25%	Jan. 2004	6.75	-
Jan. 2014	10.15	CPI	Jan. 2005	7.75	14.8%
Jan. 2015	10.42	CPI	Jan. 2006	8.82	13.8%
Jan. 2016	10.71	CPI	Jan. 2007	9.14	CPI
Jan. 2017	10.99	CPI	Jan. 2008	9.36	CPI
Jan. 2018	11.29	CPI	↓	↓	↓
Jan. 2013-2018 5 years	3.29	41%	Jan. 2014	10.74	
			Jan. 2003-2014 10 years	3.99	59%
			First 5 years	2.61	39%

NOTE: Where applicable, CPI for Urban Wage Earners and Clerical Workers assumed at 2.7 percent (average for past 15 years in SF-Oak-SJ MSA)

/a/ Calculated assuming passage of Fair Minimum Wage Act by October 2014.

Source: Hausrath Economics Group compiled from a number of sources.

TABLE A-2
ANNUAL AND 5-YEAR INCREASES IN MINIMUM WAGE
AS PROPOSED FOR CITIES IN THE BAY AREA

Oakland 2014 Ballot Initiative				
Date	Amount	Percent Increase		
Jan. 2014	\$8.00			
Jul. 2014	9.00	12.5%	(6 months)] 53% over
Mar. 2015	12.25	36.1%	(8 months)] 14 months
Jan. 2016	12.58	CPI		
Jan. 2017	12.92	CPI		
Jan. 2018	13.27	CPI		
Jan. 2019	13.63	CPI		
Jan. 2014-2019 5 years	\$5.63	70%		
Berkeley Proposal (June 11, 2014)				
Date	Amount	Percent Increase		
Jan. 2014	\$8.00			
July. 2014	\$9.00	12.5%	(6 months)] 25% over
Oct. 2014	10.00	11.1%	(3 months)] 9 months
Oct. 2015	11.00	10.0%		
Oct. 2016	12.53	13.9%		
Oct. 2017	12.53	-		<i>Berkeley proposal includes 1-yr grace period for non-profits</i>
Oct. 2018	12.53	-		
Jan. 2014-2019 5 years	\$4.53	57%		
Richmond Proposal (June 3, 2014)				
Date	Amount	Percent Increase		
Jan. 2014	\$8.00			
July. 2014	9.00	12.5%	(6 months)] 20% over
Jan. 2015	9.60	6.7%	(6 months)] 12 months
Jan. 2016	11.52	20.0%		
Jan. 2017	12.30	6.8%		
Jan. 2018	13.00	5.7%		<i>Richmond proposal exempts small businesses and employers paid by reimbursements from State and Federal grants</i>
Jan. 2019	13.35	CPI		
Jan. 2014-2019 5 years	\$5.35	67%		
San Francisco Ballot Measure (June 10, 2014)				
Date	Amount	Percent Increase		
Jan. 2014	\$10.74			
Jan. 2015	11.00	CPI		
May 2015	12.25	11.3%		
July 2016	13.00	6.1%		<i>San Francisco proposal includes different wage rates for youth trainees and senior subsidized employment</i>
July 2017	14.00	7.7%		
July 2018	15.00	7.7%		
Jan. 2019	15.00	7.1%		
Jan. 2014-2019 5 years	\$4.26	40%		

NOTE: Where applicable, CPI for Urban Wage Earners and Clerical Workers assumed at 2.7 percent (average for past 15 years in SF-Oak-SJ MSA)

Source: Hausrath Economics Group compiled from a number of sources.

**GOVERNMENT SOURCES FOR ESTIMATES OF WORKERS
AFFECTED BY PROPOSED MINIMUM WAGE INCREASE IN OAKLAND**

U.S. Census Bureau, LEHD Origin-Destination Employment Statistics (LODES), On The Map application for Oakland. Provided employment by industry for different earnings categories, employment trends over time, and demographic data for Oakland workers overall and by earnings categories. Work Area Profile Reports, some Home Area Profile Reports, and Home Destination Report, all for City of Oakland.

U.S. Bureau of Labor Statistics (BLS):

- Data from Current Population Survey (CPS) by industry: for work full-time (35 hours or more) or part-time; and average hours worked.
- Establishment data for average weekly hours worked by industry sector.
- Other selected tables, most reporting national data by industry sector.

U.S. Census, American Community Survey, (ACS), 2008-2012 5-year estimates and selected 2012 1-year estimates. Selected Economic Characteristics, Place of Work data, and other tables for Oakland.

California Employment Development Department (EDD), Industry Employment for Alameda County and Oakland-Fremont-Hayward Metropolitan District, March 2013 benchmark. Used to extend 2011 employment data for Oakland to 2014.

U.S. Census Bureau, County Business Patterns, 2011 data for Oakland zip codes. Data on the distribution of Oakland establishments by size and by industry.



AGENDA REPORT

TO: FRED BLACKWELL
CITY ADMINISTRATOR

FROM: Rachel Flynn

SUBJECT: Minimum Wage Ordinance

DATE: April 3, 2014

City Administrator
Approval

Date

COUNCIL DISTRICT: All

RECOMMENDATION

Staff has prepared:

An Ordinance Amending the Oakland Municipal Code to Establish a City Minimum Wage

This report and ordinance was prepared in response to a proposal put forward by Vice Mayor Larry Reid to establish a minimum wage of \$10.20 per hour in Oakland. This report is intended to help frame the City Council discussion on this matter by identifying key elements for consideration.

EXECUTIVE SUMMARY

Vice Mayor Larry Reid has proposed raising the minimum wage in the City of Oakland to \$10.20 per hour. As is the case in most cities, currently the City of Oakland does not have its own minimum wage rate; local businesses must conform to the State minimum wage rate of \$8.00 per hour. State Assembly Bill 10 enacted in 2013 will raise the California minimum wage to \$9.00 per hour in July 2014 and to \$10.00 per hour in January 2016. A proposed November ballot initiative would establish an Oakland minimum wage at \$12.25 per hour.

In addition to the background and brief summary of the existing studies about the impact of minimum wage increases on the economy contained in this report, staff is moving forward with engaging an economic consultancy to complete an Oakland-specific analysis of the pros and cons of increasing the minimum wage beyond State mandated requirements. Staff is also awaiting the results of a survey recently released by the Oakland Metropolitan Chamber of Commerce to its membership to gauge support for proposed minimum wage increases of \$10.20, \$12.25 or \$15.00 per hour.

Item: _____
CED Committee
April 29, 2014

BACKGROUND/LEGISLATIVE HISTORY

Federal and State Minimum Wage Policies

The Fair Labor Standards Act of 1938 included, among other provisions, the establishment of a national minimum wage of 25 cents per hour. The federal minimum wage has risen 22 times since then and is currently at \$7.25 per hour. Efforts to raise the federal minimum wage to \$10.10 per hour have been thwarted by House Republicans, even though some studies indicate that doing so could pull roughly half of the nation's working poor out of poverty.

California established a minimum wage in 1916 at 16 cents per hour. It has been increased 25 times to its current rate of \$8.00 per hour. Assembly Bill 10 enacted in 2013 will raise the California minimum wage to \$9.00 per hour effective July, 2014 and to \$10.00 per hour effective January 1, 2016.

Minimum Wage Policies in other Bay Area Jurisdictions

The City of San Francisco was the first local municipality to establish a minimum wage in 2004, at \$8.50 per hour; today it is \$10.74 per hour. San Francisco also has labor standards for mandatory health care and paid leave.

Other Bay Area studies have either adopted higher minimum wages or are considering increases. By referendum in 2012, the City of San Jose established a minimum wage of \$10.15/ per hour. The City of Richmond recently adopted legislation establishing its minimum wage at \$9.00 per hour. The City of Berkeley is also contemplating establishing a minimum wage at \$10.55 per hour.

There currently are efforts to pass a ballot initiative in November that would establish Oakland's minimum wage at \$12.25 per hour, with annual escalators based on increases in the local Consumer Price Index. Other labor standards included in the proposed ballot initiative are requirements for paid sick leave and requirements that hospitality workers receive service charges that are included on customers' bills.

See *Attachment A* for a summary of Federal, State and local minimum wage policies.

ANALYSIS

Proposals to raise the minimum wage rate at the federal, state and local levels are based primarily on concerns regarding the widening income gap between our working poor and middle and upper class workers. Nationally, approximately 3,600,000 workers—or 4.7% of all hourly workers—earn wages at or below the federal minimum wage of \$7.25 per hour.

Item: _____
CED Committee
April 29, 2014

Nearly two-thirds of minimum wage earners are female, with the majority of them being single heads of households. More than half of the jobs that pay minimum wage are in food service and retail occupations.

Housing, food, transportation, child care, health care and other basic necessities in the Bay Area are more expensive than the national average. The true Self-Sufficiency Standard as calculated by the Insight Center for Community Development and used by the Oakland Workforce Investment Board for a family of four with two bread-winners in Alameda County is approximately \$86,400 annually. That comes to more than \$20 per hour for two working adults. For a single head of household with two children, the standard is around \$82,000 annually, which comes to \$39 per hour.

The proposed ordinance to establish a City of Oakland minimum wage at \$10.20 per hour represents a 27.5% increase from the current State minimum wage of \$8.00 hour. With 76% of Americans supporting an increase in the minimum wage to \$9.00 per hour according to a recent Gallop Poll, it is safe to assume that the majority of residents in a City as committed to social equity as Oakland would support an increase as well.

Policy Considerations When Considering Minimum Wage Increases

In addition to increasing earnings for the working poor, advocates for increasing the minimum wage believe that it would increase aggregate demand for goods and services, thus stimulating local economies. They also believe that it would reduce income inequality. When considering a raise to the minimum wage, policymakers should take into consideration a number of other issues, including, but not limited to the following:

- Small business exemption—should there be an exemption for businesses with gross earnings of less than \$500,000 per year?
- Exemptions and subminimum wages for youth, student, job training program participants, and tipped workers, for example.
- Wage compression, meaning workers earning more than minimum wage would likely demand or expect increases as well.
- Cost of living escalator. It should be based on San Francisco/Bay Area costs, and not on the national index.
- Negative impact on jobs. Employers may cut back on jobs or leave town.
- Increased prices for goods and services to off-set increased personnel costs.
- Reduced profits, particularly for food service providers and retailers.
- How an increase will impact small businesses and large employers and national chains differently.
- How to enforce local minimum wage violations, types of enforcement, and estimated costs to the City General Fund.

Preliminary Literature Review

There are numerous studies and articles on the topic of increasing the minimum wage. Staff's preliminary summation of the more extensive studies performed by neutral entities, such as the Congressional Budget Office and the UC Berkeley Institute for Research on Labor and Employment, is as follows:

- There would likely be some loss of jobs due to reductions in force or businesses leaving Oakland. Nationally, the projection is \$500,000 based on the proposed increase to \$9.00 per hour. In Oakland, a local analysis of impacted employers is needed to determine the extent of potential job loss.
- Many more workers than those who earn minimum wage would benefit. Nationally, the estimate is 24.5 million workers would experience increases in their wages—more than six times more people than currently making minimum wage. On a smaller scale, Oakland should experience the same ripple effect.
- Prices for some goods and services would increase. Studies vary on this potential impact. One study indicated that the cost of food would increase 10 cents per day.
- There would likely be an increase in automation, thus off-setting the loss of minimum wage jobs with higher end technology and manufacturing jobs. The extent to which Oakland would experience this positive off-set is unknown at this time.
- Economic stimulation—roughly half of the people who work in Oakland live in Oakland. Their increased earning would go back into the local economy. At the national level, this stimulation is estimated at \$33 billion annually. Oakland's businesses would experience increased sales and revenue, comparable a portion of the increased earnings of the residents who live and work here.
- Improved worker retention, loyalty, and productivity. Several studies came to this conclusion, which has a significant positive impact on the cost of doing business, customer satisfaction, and improved sales.

Provisions in Current Draft Ordinance

The basic provisions included in the attached Minimum Wage Ordinance are as follows:

- The Minimum Wage shall be an hourly rate of \$10.20, beginning on January 1, 2015.
- Each year thereafter, the Minimum Wage shall increase by an amount corresponding to the prior year's increase, if any, in the cost of living based on the Consumer Price Index. The adjusted minimum wage shall be announced by

Item: _____
CED Committee
April 29, 2014

October 1 of each year, and shall become effective as the new minimum wage on January 1.

- Per the City's existing Living Wage Ordinance, an exemption is proposed for an employee who is a trainee in a job training program that meets the City job training standards. This exemption shall be for the period of training as specified under the City-approved training standards;
- Also per the Living Wage Ordinance, an exemption is proposed for an employee who is under twenty-one years of age and is employed by a nonprofit corporation for after school or summer employment or as a trainee for a period not longer than 90 days.
- Enforcement is proposed to be complaint-based, meaning workers who believe their rights under this Ordinance are being violated may lodge a complaint with the City, rather than having the City perform ongoing monitoring.

Next Steps

National studies and reports on impacts of minimum wage increases are helpful in understanding all the facets of this complex and critical issue; however, further local impact analyses of potential positive and negative impacts is needed. While some parts of Oakland have grown and flourished with business development and expansion, other parts of the City struggle to attract and retain businesses.

The commitment to social equity and closing the wage gap and Oakland's ongoing need to attract and retain businesses are not necessarily mutually exclusive. With current and proposed minimum wage rates in the Bay Area ranging from \$8.00 per hour to \$15.00 per hour, the need for a more in depth analysis of potential impacts on Oakland-based employers is essential. Within this wide range of current and proposed minimum wage rates, there may be a "sweet spot" where an increase could help close the wage gap, minimize job loss, and stimulate our local economy and improve worker retention and productivity.

Next steps staff has planned for providing the City Council with more information on this important topic include engaging an economic consultancy to complete an Oakland-specific analysis of the pros and cons of establishing a minimum wage. The study will focus on the impacts of a range of minimum wage increases, including the \$10.20 per hour rate proposed by Vice Mayor Reid and the \$12.25 rate proposed to be slated for the November election. Staff has released a Notice Inviting Bids for a consultant to conduct a minimum wage increase impact analysis specifically for Oakland and expects to have a study completed in three to four months.

Staff is awaiting the results of a survey released by the Oakland Metropolitan Chamber of Commerce to its membership to gather and analyze their positions (see *Attachment B*).

PUBLIC OUTREACH/INTEREST

Lift Up Oakland is the coalition that is planning to place the \$12.25 per hour minimum wage initiative on the November ballot. This coalition is comprised of many community based and labor organizations with which the City has worked. In addition, the Oakland Metropolitan Chamber of Commerce is conducting a survey of its members to gauge their support for and opposition to the proposed increases of \$10.20 per hour, \$12.25 per hour and \$15.00 per hour.

COORDINATION

Staff is coordinating efforts within the Department of Economic and Workforce Development and the City Attorney's Office for assistance with the Ordinance. This report has also been reviewed by the Budget Office.

COST SUMMARY/IMPLICATIONS

At this point, staff has no precise cost estimates but want to ensure the City Council considers the cost of enforcement. San Jose devotes 0.8 FTE to field and follow-up complaints from workers. San Jose also set aside additional general funds for legal fees and enforcement, which the City has not had to access since its minimum wage was enacted in March 2013.

The City of San Francisco has a robust Office of Labor Standards Enforcement to oversee its many workplace standards ordinances. Its minimum wage enforcement is also complaint driven, although the Office of Labor Standards and Enforcement does use active enforcement for instances where there are numerous alleged violations in a particular area or with particular types of businesses.

SUSTAINABLE OPPORTUNITIES

Economic: The economic impact of establishing a minimum wage in Oakland requires further study. While it appears that increased wages for Oakland workers will likely stimulate the City's economy, it is not yet clear what the impact will be on jobs lost and increased costs for goods and services.

Environmental: This report does not directly address environmental sustainability.

Social Equity: The minimum wage increase would help close the wage gap for Oakland's many working poor if wages go up 27.5% or higher.

For questions regarding this report, please contact Al Auletta, Program Director, at 510-238-3752.

Respectfully submitted,

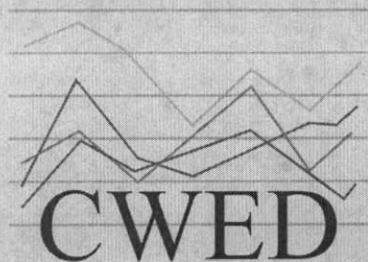
Rachel Flynn, Acting Director
Economic and Workforce Development

Reviewed by:
Kelley Kahn, Director of Special Projects
Office of the City Administrator

John R. Bailey, Executive Director
Oakland Workforce Investment Board

Prepared by:
Al Auletta, Program Manager
Department of Economic & Workforce Development

Attachment A: Summary Table of Federal, State and Local Minimum Wage Policies
Attachment B: Chamber of Commerce Minimum Wage Survey



Center on Wage and Employment Dynamics

POLICY BRIEF

June 2014

Institute for Research on Labor and Employment
University of California, Berkeley

The Impact of Oakland's Proposed City Minimum Wage Law: A Prospective Study

by Michael Reich, Ken Jacobs, Annette Bernhardt and Ian Perry

Michael Reich is Professor of Economics and Director of the UC Berkeley Institute for Research on Labor and Employment; Ken Jacobs is the Chair of the UC Berkeley Center for Labor Research and Education; Annette Bernhardt is a visiting professor of sociology and visiting researcher, Institute for Research on Labor and Employment; Ian Perry is a researcher at the UC Berkeley Center for Labor Research and Education.

Acknowledgments: We thank Sylvia Allegretto, Chris Benner, Cynthia Kroll, William Lester, Zeynep Ton and staff of the California Employment Development Department for their helpful assistance.

Executive Summary

The Lift Up Oakland Coalition, an alliance of community, labor, small business and faith organizations, has placed an initiative on the Oakland November 2014 ballot that would establish a minimum wage of \$12.25 for businesses in the city starting March 1, 2015. This study examines the effects of a \$12.25 minimum wage on Oakland workers and businesses.

Drawing on a variety of government data sources, we estimate that more than a quarter of the Oakland workforce would benefit from the proposed policy, with the average worker earning an additional \$2,700 a year. Our analysis of the existing economic research literature suggests that businesses will adjust to modest increases in operating costs through reduced employee turnover costs, improved work performance, and a small, one-time increase in restaurant prices.

Specifically, we find:

- **About 25 to 30 percent of Oakland workers or between 40,000 to 48,000 Oakland workers would receive a pay raise.**
 - Between 31,000 to 34,000 would be directly affected by a minimum wage increase.
 - Between 9,000 to 14,000 would be indirectly affected by a ripple effect.
- **Workers' hourly wages and annual incomes would rise, resulting in increased annual earnings of \$120 million per year.**
 - Hourly wages of affected workers would rise by an average of \$1.69/hour.
 - Average annual earnings would increase by about \$2,700 per year.
- **Adults and workers of color would see significant benefits of a pay increase.**
 - 96.5 percent of affected workers are in their twenties or older, and over half of the workers receiving raises are in their thirties or older.
 - Workers of color (Black, Hispanic, and Asian) make up about 62.1 percent of the total workforce in Oakland, but they represent about 78.7 percent of workers affected by a minimum wage increase to \$12.25.
 - About 43.0 percent of the affected workers are Hispanic/Latino.
- **Increasing the minimum wage would have a modest impact on business operating costs and consumer prices.**
 - Research evidence indicates that the costs of a higher minimum wage are absorbed through reduced worker turnover, improved worker performance and small one-time increases in restaurant prices.
 - Operating costs would increase by 0.3 percent for retail businesses and 2.8 percent for restaurants.
 - Restaurant prices would increase by 2.5 percent. A \$10 meal would increase by 25 cents, to a total of \$10.25. For retail and the local economy as a whole, price increases would be negligible.

-
- **Previous studies found that minimum wage increases have little negative impact on employment.**
 - Three rigorous studies of the employment impacts of existing local minimum wage laws all find no significant impact on employment.
 - A national study compares employment in all the counties that straddle state borders with different minimum wages, for the period 1990 to 2012. This study finds no statistically significant effects of minimum wage increases on either employment or hours in restaurants and other low-wage industries, controlling for a range of regional and local differences that previous research did not include.

 - **The proposed 36 percent minimum wage increase in Oakland lies within the range of previous local minimum wage laws.**
 - The ten previous local minimum wage laws in the U.S. have mandated an average increase of 43.0 percent, with a range of 13.3 percent to 84.5 percent.
 - The proposed policy would increase the minimum wage to 54 percent of the Oakland median wage of \$22.64 an hour. This ratio is within the historical range of the ratio of the federal minimum wage to the median wage.

Introduction

Residents of Oakland, California will soon be voting whether or not to adopt a city-wide minimum wage policy. The proposal under consideration would establish a minimum wage of \$12.25 for businesses operating in the city as of March 1, 2015, indexed to inflation in subsequent years. In this report, we first estimate the number of workers that would be affected and describe their demographic and job characteristics. We then estimate the resulting increase in wages and analyze their likely impacts on business costs, prices and employment. We also compare the magnitude of the proposed increase to those in the ten other extant local minimum wage laws.

Background

Real wages for the majority of American workers have stagnated over the last decade, even as incomes at the top rose sharply (Mishel and Shierholz 2013). According to the California Budget Project, workers in the bottom 20 percent of the income distribution in California now earn 12 percent less in inflation-adjusted wages than in 1979 (California Budget Project 2014). Even though states like California have set minimum wage rates above the federal level, they still remain below their historic value in inflation-adjusted terms and do not reflect the higher cost of living in many urban areas.

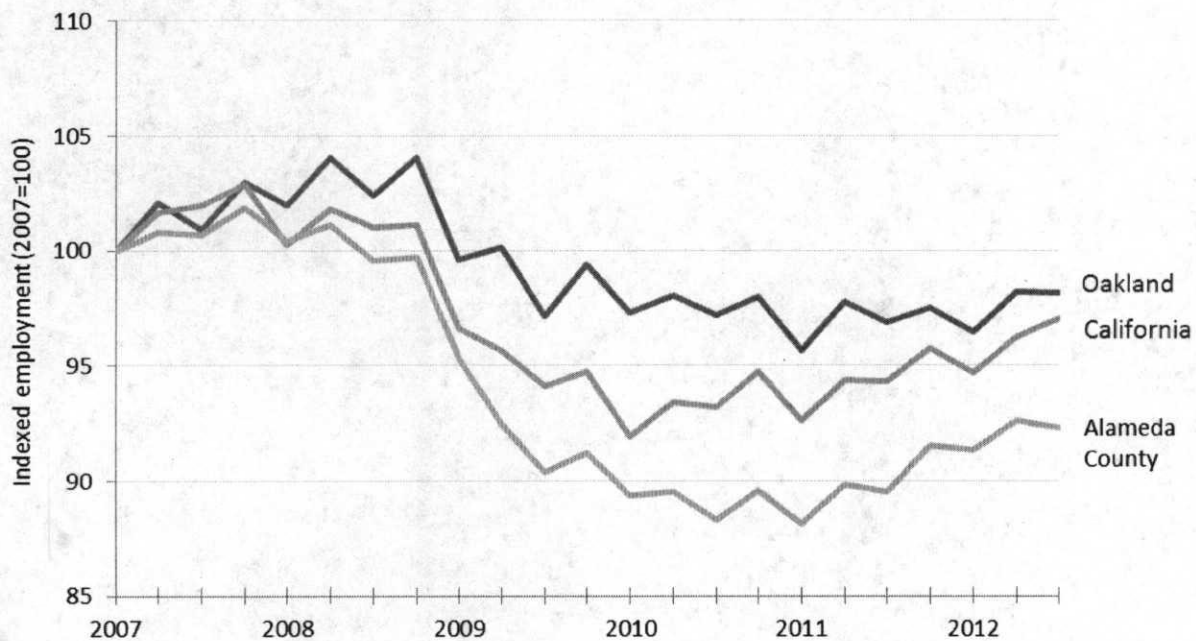
In response, cities and counties have begun to set their own minimum wages at levels that reflect local economic conditions and living costs. Ten cities and counties have approved local minimum wage laws. Most recently Seattle, Washington approved a minimum wage of \$15 an hour, to be phased in over several years. In the Bay Area, in 2003 San Francisco became the first city in the nation to pass a citywide minimum wage law. In 2012, San Jose voters approved a minimum wage initiative setting the minimum wage to \$10 per hour as of January 1, 2014 with subsequent annual cost of living increases.

Proposals are also currently under consideration to increase the minimum wage to \$12.53 in Berkeley, \$13 in Richmond and \$15 in San Francisco. California's minimum wage is set to increase to \$9 on July 1, 2014 and to \$10 on January 1, 2016.

Oakland, the largest city in Alameda County, accounts for about one-fourth of the county's population. Its principal immediate neighbors are Emeryville and Berkeley to the north, the East Bay Regional Park District to the east, San Leandro to the south and Alameda to the west. About 45 percent of employed Oakland residents work in Oakland; conversely, about 60 percent of workers with jobs located in Oakland commute in from nearby cities.¹ The proposed minimum wage law would cover everyone who works in Oakland (excepting state and federal government employees and the self-employed).

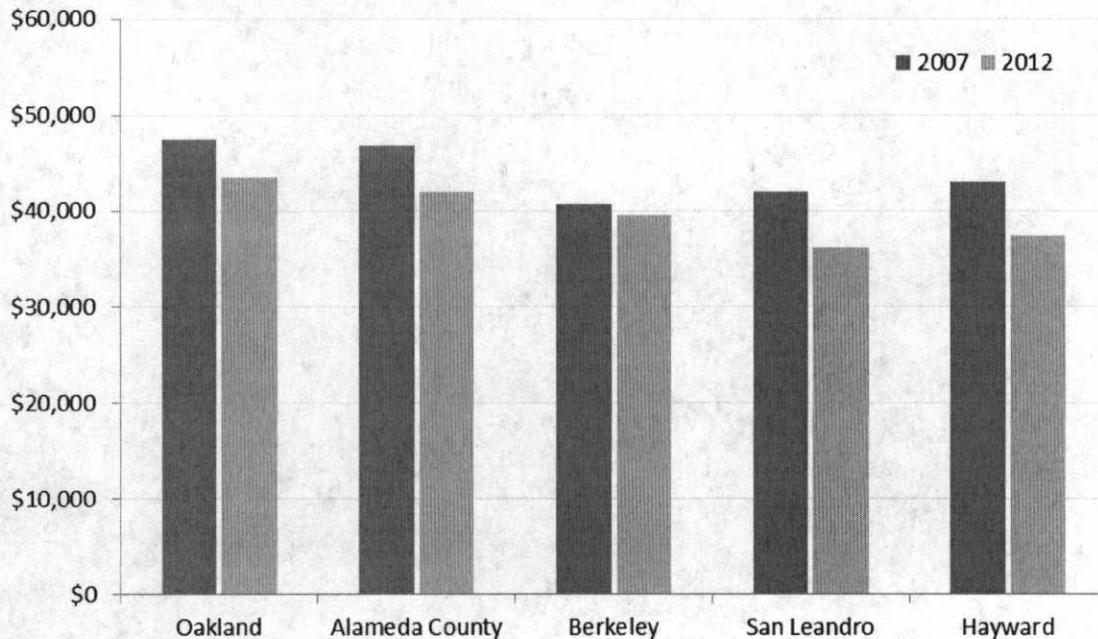
Oakland's economic situation has improved in recent years. During the Great Recession that began in December 2007, employment did not fall as rapidly in Oakland as in Alameda County or in California. As shown in Figure 1, the number of jobs in Oakland is very close to pre-recession levels, a better record than that of Alameda County and California as a whole. Moreover, while the 2014 Oakland unemployment rate remains higher (8.9 percent) than in Alameda County as a whole (5.7 percent), both rates have been falling, and at about the same pace.²

Figure 1. Quarterly Employment Growth (Indexed to 2007)



Source: U.S. Census Bureau, Quarterly Workforce Indicators Data (not seasonally adjusted)

Figure 2. Median Annual Earnings by Place of Work (2012 Dollars)



Source: U.S. Census Bureau, American Community Survey, 2005-2012.

Notes: Estimates are three-year averages.

Despite the recovery, inflation-adjusted median annual earnings for those who work in Oakland are still below pre-recession levels. These declines in median earnings likely reflect a faster contraction of middle wage jobs during the recession and a faster growth of low-wage jobs during the recovery. However, workers in Alameda County as a whole experienced a somewhat larger decline in real earnings than did Oakland Workers (Figure 2). Median inflation adjusted annual earnings fell 8.4 percent for workers in Oakland and 10.4 percent in Alameda County between 2007 and 2012. Nonetheless, median annual earnings for those who work in Oakland are actually higher than in nearby Berkeley, Hayward and San Leandro and slightly higher than in Alameda County as a whole.³

Oakland's economy thus exhibits the same uneven recovery that characterizes the East Bay and the state as a whole. Income inequality in the region has been growing, leaving low-wage workers further behind. According to a recent Brookings Institution report, inequality in Oakland ranks seventh among U.S. cities, just behind New York (Berube 2014). Moreover, according to the Census Bureau, income inequality in Oakland-- as measured by the city's Gini coefficient-- has risen by 2.65 percent since 2008, a more rapid increase than in neighboring San Francisco, and more rapid than in the U.S.⁴ At the same time, median rents in Oakland increased by 20 percent between 2005 and 2012⁵, twice the rate of increase in median household incomes.⁶

Impacts on Workers

Estimated Number of Affected Workers

To estimate the number of workers affected by the proposed minimum wage increase, we obtain the wage distribution of workers in Alameda County using the 2012 American Community Survey (ACS), scaled to approximate employment counts for Oakland.⁷ This step is necessary because the ACS does not allow us to identify individuals who work in Oakland; the smallest geographic area for measuring place of work is the county. We therefore assume that the proportion and characteristics of low-wage workers in Alameda County are similar to low-wage workers in Oakland. Our analysis suggests that the Alameda County workforce serves as a good proxy for the Oakland workforce on many dimensions. For example, 2012 median annual earnings were \$43,480 for workers employed in Oakland and \$41,922 for workers employed in Alameda County.⁸ Where we expect workforce characteristics to differ between the county and the city, we use additional methods to provide an estimate. We do not include self-employed workers or federal or state government employees in our sample, since these groups of workers are not covered by the proposed Oakland law.

After obtaining the wage distribution in Oakland just before the proposed minimum wage law would go into effect, we then estimate the number of workers that would be affected by the increase and the additional wages they would receive if the policy were implemented. To construct these estimates, we also adjust for projected wage growth at the bottom of the wage distribution that would occur without the policy, the interim increase in the state minimum wage to \$9 on July 1, 2014, the subsequent state minimum wage increase to \$10 on January 1, 2016, and projected employment growth.

We produce a low and a high estimate. Both estimates include a directly affected group (workers who make less than the proposed minimum wage) and an indirectly affected group (workers who make slightly more than the proposed minimum wage, but who are also likely to receive a small raise via what is known as the “ripple effect”). The two estimates differ in their assumptions about the size of the ripple effect and the number of very low-wage earners (workers making less than the minimum wage). More information on our methodology is available in an online technical appendix (see Welch-Love-man, Perry and Bernhardt 2014). In this report we present the midpoint of the two estimates, unless otherwise noted.

Table 1 shows the estimated number and percent of workers affected by Oakland’s proposed minimum wage increase. We estimate that between 25 and 30 percent of Oakland workers will receive pay raises, which translates into 40,000 to 48,000 Oakland workers. The majority of the affected workers will be directly affected workers – that is, those earning less than \$12.25 when the law would go into effect.

Table 1. Number of Workers Affected by Oakland's Proposed Minimum Wage Increase

	Low Estimate		High Estimate	
	Workers	Percent of Workforce	Workers	Percent of Workforce
All Affected Workers	40,000	24.8	48,000	29.5
Directly Affected Workers	31,000	19.1	34,000	20.7
Indirectly Affected Workers	9,000	5.7	14,000	8.7

Source: Authors' analysis of ACS, OES, and QCEW data. See Welsh-Loveman, Perry and Bernhardt 2014.

Estimated Size of Wage Increases

In addition to the number of workers affected, we also estimate the additional earnings that affected workers would receive as a result of the proposed minimum wage law. Table 2 presents four measures: the average increase in hourly wages, the average increase in annual earnings, the average percentage increase in annual earnings and the total projected increase in earnings. We estimate that hourly wages of affected workers will rise by about \$1.69, that their annual earnings will increase by about \$2,700, and that their earnings will increase by about 18.7 percent.⁹ In total, workers will earn about \$120 million more in the first year of implementation as a result of the higher wage rate.

Table 2. Pay Increases for Workers Affected by Oakland's Proposed Minimum Wage Law

Total Increase In Earnings	\$120,100,000
Average Hourly Wage Increase	\$1.69
Average Annual Earnings Increase	\$2,700
Average Percent Annual Earnings Increase	18.7

Source: Authors' analysis of ACS, OES, and QCEW data. See Welsh-Loveman, Perry and Bernhardt 2014.

Notes: Results refer to workers affected by Oakland's proposed minimum wage increase.

Demographics of Affected Workers

Table 3 profiles key demographic characteristics of the workers affected (both directly and indirectly through the ripple effect) by the proposed Oakland minimum wage law. In this table we use our low estimate to identify affected workers.

The first column of Table 3 displays the distribution of affected workers among demographic groups. For example, 48.2 percent of affected workers are women and 51.8 are men. Column 2 shows the same breakdown for all workers in Oakland. The last column shows the percentage of workers in each demographic group that will be affected by the proposed law. For example, 25.7 percent of female workers and 24.0 percent of male workers will receive a wage increase under the proposed law.

Table 3. Demographic Characteristics of Workers Affected by Oakland's Proposed Minimum Wage Increase
(all figures are percentages unless otherwise noted)

	% of All Affected Workers	% of All Workers	% of Group Affected
Gender			
Male	51.8	53.5	24.0
Female	48.2	46.5	25.7
Median Age			
	32	41	
Age			
19 and Younger	3.5	1.2	70.7
20-29	39.8	19.9	49.7
30-39	19.8	24.9	19.8
40-54	25.8	37.5	17.1
55 and Older	11.1	16.5	16.6
Education			
Less than High School	22.9	10.0	56.9
High School or G.E.D.	25.2	18.5	33.7
Some College	27.2	22.5	30.0
Associate's Degree	6.0	7.6	19.4
Bachelor's Degree or Higher	18.8	41.3	11.3
Country of Birth			
U.S. Born	50.0	61.0	20.3
Foreign Born	50.0	39.0	31.8
Family Structure			
Married	38.5	54.0	17.7
Have Children	35.8	45.0	19.7

Source: Authors' analysis of ACS, OES, and QCEW data.

Notes: Affected workers are determined using our low estimate.

Contrary to the common perception that minimum wage workers are mainly teens, we estimate that 96.5 percent of affected workers are in their twenties or older, and that over half of the workers receiving raises are in their thirties or older. Over a third of affected workers have children and over a third are married. Compared to the overall workforce, affected workers are more likely to be immigrants and are less likely to hold an Associate's or Bachelor's degree.

For the estimates in Table 3, we used the demographic characteristics of Alameda County workers to approximate the characteristics of Oakland workers; for the measures listed in the table, we have confirmed that this inference is valid. However, our analysis suggests that the Oakland workforce differs from the Alameda County workforce in terms of race and ethnicity, and family income-related measures. Since the available data do not allow us to directly identify workers employed in Oakland, we show in Table 4 the average of two different estimates.¹⁰

As shown in Table 4, workers of color will disproportionately benefit from the proposed law compared to white workers. The families of affected workers are disproportionately low-income (with more than half falling below 200 percent of the federal poverty level), and more likely to be receiving food stamps. Substantial majorities of working poor families will receive an increase in income from the proposed law.

Table 4. Estimated Race and Household Income Characteristics of Workers Affected by Oakland's Proposed Minimum Wage Increase

(all figures are percentages unless otherwise noted)

	% of All Workers Getting a Raise	% of All Workers	% of Group Getting a Raise
Race/Ethnicity			
White (Non-Hispanic)	18.2	34.1	15.3
Black (Non-Hispanic)	13.6	13.8	29.2
Hispanic	43.0	25.3	49.9
Asian (Non-Hispanic)	22.1	23.0	28.6
Other	3.2	3.8	24.2
Household Income Relative to Poverty Level (FPL)			
Less than 100% of FPL	18.7	6.8	81.5
100% to 150% of FPL	21.6	9.0	71.8
150% to 200% of FPL	15.2	7.4	60.6
More than 200% of FPL	44.4	76.7	16.9
Average Worker Share of Household Income	41.3	55.4	
Food Stamp Assistance			
Family Receives Food Stamp Assistance	19.2	8.7	64.9

Source: Authors' analysis of ACS, OES, and QCEW data.

Notes: See text for explanation of the two estimation methods. Affected workers are determined using our low estimate.

Job Characteristics of Affected Workers

In Table 5, we profile the job characteristics of workers affected by the proposed minimum wage law. Not surprisingly, the median annual earnings of affected workers is quite low, less than half of the median for the workforce as a whole. Affected workers are also more likely to work part-time and part-year than the general workforce, and are less likely to have health insurance provided by their employer. The industry breakdown is also instructive. Fully half of all affected workers are employed in three industries: retail trade (17.1 percent); restaurants (17.9 percent); and education, health and social services industries (15.7 percent). (The latter set of industries includes teachers' assistants, medical assistants, childcare workers and private-pay home health aides). Several smaller industries also have a disproportionate number of affected workers, such as administrative and waste management services (largely temporary workers).

Table 5. Job Characteristics of Workers Affected by Oakland's Proposed Minimum Wage Increase
(all figures are percentages unless otherwise noted)

	% of All Workers Getting a Raise	% of All Workers	% of Group Getting a Raise
Median Individual Annual Earnings (2013 Dollars)	\$16,200	\$44,600	
Full-Time / Part-Time Worker			
Full-Time (35 or More Hours per Week)	63.4	80.1	19.6
Part-Time (Fewer than 35 Hours per Week)	36.6	19.9	45.7
Full-Year / Part-Year Worker			
Full-Year (50-52 Weeks per Year)	77.7	84.9	22.7
Part-Year (Fewer than 50 Weeks per Year)	22.3	15.1	36.5
Sector			
Private Sector Employer	87.8	79.6	27.4
Non-Profit Employer	8.1	11.5	17.4
Local Government	4.2	9.0	11.5
Health Insurance Provided by Employer			
Yes	46.0	76.4	14.9
No	54.0	23.6	56.8
Industry			
Agriculture, Forestry, Fishing, Hunting, and Mining	0.2	0.3	
Construction	4.9	5.6	21.4
Manufacturing	10.5	14.0	18.6
Wholesale Trade	3.8	4.2	22.2
Retail Trade	17.1	11.3	37.4
Transportation, Warehousing, and Utilities	3.2	4.7	17.3
Information and Communications	1.5	2.9	13.0
Finance, Insurance, Real Estate, and Rental and Leasing	2.8	5.0	14.1
Professional, Scientific, and Management	2.9	9.1	7.9
Administrative and Waste Management Services	7.7	4.4	42.9
Educational, Health and Social Services	15.7	21.7	18.0
Arts, Entertainment, Recreation	2.2	1.9	29.2
Accommodations	1.7	1.0	
Food Services	17.9	6.9	63.9
Other Services (except Public Administration)	7.2	4.5	40.2
Public Administration	0.7	2.4	6.7

Source: Authors' analysis of ACS, OES, and QCEW data.

Notes: Affected workers are determined using our low estimate. Blank values for "% of Group Getting a Raise" indicate less than 50 observations for that category.

Impacts on Businesses

Impact on Costs for Business Owners

We next estimate the impact of Oakland's proposed minimum wage law on the operating costs of businesses. Our strategy is to compare the estimated increase in the overall wage bill resulting from the proposed law to the existing wage bill paid by employers, drawing on our estimates in Table 1 and Table 2 above.

Table 6 shows our analysis of the estimated increase in business operating costs in two traditionally low-wage industries, retail and restaurants. Businesses' total wage bill will increase 2.4 percent for the retail industry, and 8.9 percent in the restaurant industry. However, operating costs will rise by a much smaller amount, since wage costs only make up a portion of the total operating costs that businesses face. Labor costs (excluding health benefits) account for 11 percent of retail operating costs and 31 percent of restaurant operating costs.¹¹ We therefore estimate that total operating costs will increase by 0.3 percent for retail and 2.8 percent for restaurants, as a result of the proposed minimum wage law.

Table 6. Impact of Oakland's Proposed Minimum Wage Increase On Business Operating Costs

Retail Industries	
% Change in Payroll Costs	2.4
Labor Costs as % of Operating Costs*	11
% Change in Operating Costs	0.3
<hr/>	
Restaurant Industries	
% Change in Payroll Costs	8.9
Labor Costs as % of Operating Costs*	31
% Change in Operating Costs	2.8

Source: Authors' analysis of ACS, OES, QCEW, U.S. Census Monthly and Annual Retail Trade and BEA data.

*Labor costs exclude health insurance. Operating costs include costs of merchandise purchased for re-sale.

Given these modest estimated increases in operating costs, we turn next to a discussion of how businesses might adjust. We discuss, in turn, the effects of minimum wages on employment and hours, on worker productivity and turnover, and on consumer prices.

Impact on Employment and Hours

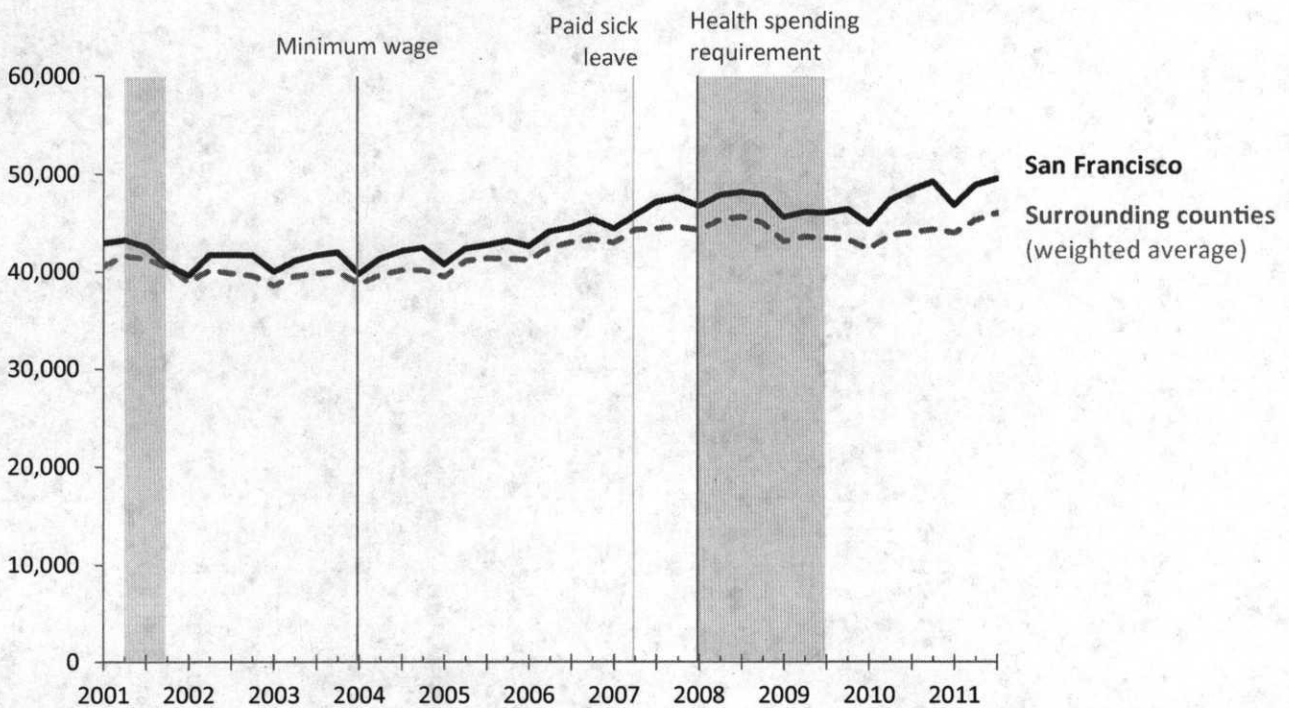
In a recent report prepared for the City of Seattle, Reich, Jacobs and Bernhardt (2014) provide an extensive review and synthesis of economic research on the employment and hours impacts of minimum wage increases. Here, we draw on that paper and provide a brief summary of what we consider to be the most compelling studies.

Research evidence from local minimum wage laws

There are three rigorous studies of the employment impacts of existing local minimum wage laws. Dube, Naidu and Reich (2007) studied the impact of San Francisco's minimum wage law after it increased from \$6.75 to \$8.50 an hour in 2004. They surveyed a sample of restaurants before and after the wage increase. The sample included restaurants from San Francisco as well as neighboring East Bay cities that were not covered by the policy.

The authors found no statistically significant negative effects on either employment or the proportion of full-time jobs as a result of the San Francisco law. This finding holds for both full-service and fast-food restaurants (one might expect more sensitivity to a higher minimum wage in the latter). Figure 3 shows the results from their follow-up study (Reich, Jacobs, and Dietz 2014). Restaurant employment in San Francisco rose slightly faster than in surrounding counties after the minimum wage increase, and again after San Francisco implemented two additional policies (paid sick leave and a health spending requirement).

Figure 3. Bay Area Restaurant Employment



Source: Reich, Jacobs and Dietz (2014)

Notes: Shaded areas indicate recessions. Surrounding counties include San Mateo, Santa Clara, and Alameda Counties.

Potter (2006) studied the impact of Santa Fe's minimum wage law after it increased from \$5.15 to \$8.50 in 2004, a substantial increase of 65 percent. Potter compares changes in employment at Santa Fe businesses before and after the ordinance went into effect, and to changes in employment in nearby Albuquerque over the same time period. (Albuquerque did not have a city minimum wage law at that time.) Potter found no statistically significant negative impact of Santa Fe's minimum wage increase on the city's employment. This finding also held for accommodation and food services, the industries with the highest proportion of minimum wage workers.

Finally, Schmitt and Rosnick (2011) studied the impact of the above two laws, comparing employment trends in these cities before and after their minimum wage increases to control groups of surrounding suburbs and nearby metropolitan areas. The authors focused on fast-food restaurants, food services, retail trade, and other low-wage industries, and found no discernible negative effects on employment, even three years after the respective ordinances were implemented.¹²

Evidence from state and federal minimum wage laws

The results from studies of local minimum wage laws are corroborated by extensive research on state and federal minimum wage laws. Allegretto, Dube, Reich and Zipperer (2013) looked at every state and federal minimum wage increase in the U.S. between 1990 and 2012 and identified several hundred pairs of adjacent counties that were located on different sides of a state border with a minimum wage difference. This research design compares the employment trends of the most affected groups – teens and restaurants – across adjacent counties with different minimum wage levels. This study finds no statistically significant effects of minimum wage increases on either employment or hours in restaurants and other low-wage industries, controlling for a range of regional and local differences that previous research did not include.

Belman and Wolfson (2014) provide the most extensive recent summary of the minimum wage research literature. They conclude that minimum wage employment effects in the U. S. are “both vanishingly small and not statistically significant in even the most generous test” (p. 168). A separate review of minimum wage research by Schmitt (2013) similarly finds “the minimum wage has little or no discernible effect on the employment prospects of low-wage workers.”

In summary, the best research studies find that minimum wage mandates (in the range implemented to date) do not have a statistically significant negative effect on employment or hours. How, then, do firms adjust to the modest increase in operating costs estimated above?

Effects on Worker Productivity and Recruitment and Retention Costs

As discussed in detail by Reich, Jacobs and Bernhardt (2014), businesses can adjust to the increased costs of a minimum wage increase without reducing employment. First, when workers are paid more, their productivity can improve, as can their attitude about their job, how hard they work, and their ability to make it to work on time (Reich, Jacobs and Dietz 2014 and Hirsch, Kaufman and Zelenska 2011). Second, minimum wages can reduce the high levels of job churning that characterize low-wage labor markets. The National Restaurant Association estimates that annual employee turnover in restaurants approaches 75 percent in some restaurant classifications (National Restaurant Association 2010). Turnover levels are high as workers leave jobs that pay higher wages or because they are unable to stay in their jobs due to poverty-related problems such as difficulties with transportation, child care, or health. Dube, Lester and Reich (2013) found that a 10 percent increase in the minimum wage results in a 2.1 percent reduction in turnover for restaurant workers. Turnover can be quite costly to firms, even for low-wage workers. Boushey and Glynn (2012) find that the median cost of replacement for a job paying \$30,000 a year or less is 16.1 percent of an employee’s annual earnings. As a result, rather than eliminating jobs, raising the minimum wages can reduce turnover and increase job stability. The associated reduction in employers’ recruitment and retention costs offsets about 20 to 25 percent of the costs of minimum wage increases (Dube, Lester and Reich 2013).

Impact on Restaurant Prices

Firms also adjust to increased costs by passing on some of the increases to consumers through higher prices. Since the minimum wage applies to all employers, firms such as restaurants that serve the local market will be able to pass costs through to consumers without experiencing a competitive disadvantage. And since the demand for restaurant meals responds inelastically to price increases, restaurant profits do not fall.

Research by Aaronson, French and MacDonald (2008) has found that for every percentage point increase in the minimum wage, restaurant prices rise by 0.072 percent. An earlier study (Lee et al. 2000) showed that restaurant operating costs increase by about 0.1 percent for each percentage increase in the minimum wage (see also Benner and Jayaraman 2012). The two studies together thus suggest that 70 to 75 percent of cost increases are passed on as higher restaurant prices. Preliminary results from a study of San Jose's recent experience arrive at a similar estimate (Allegretto and Reich 2014). Applying this estimate to restaurants in Oakland implies an average price increase of 2.6 percent, which is very close to annual restaurant price increases in recent years.

Table 7. Impact of Oakland's Proposed Minimum Wage Increase On Restaurant Prices

	Low Estimate	High Estimate
Retail Industries	0.2%	0.3%
Restaurant Industries	2.0%	2.9%

Source: Authors' analysis of ACS, OES, QCEW, U.S. Census Monthly and Annual Retail Trade and BEA data.

In Table 7 we provide our own estimates of the impact on restaurant and retail prices. Our low estimate uses the lower estimated increase in operating costs from Table 6, and assumes that 75 percent of those costs are passed through to consumers. Our high estimate uses the higher estimate for increases in operating costs and assumes that 100 percent of the costs are passed through to consumers. For restaurants, we predict a one-time increase in prices of 2.0 to 2.9 percent. The midpoint of this range, 2.5 percent, is very similar to the prediction from the research literature above. The price of a \$10 menu item would thus increase very modestly, to \$10.25. For retail and the local economy as a whole, price increases would be negligible.

Comparison to Other Minimum Wage Increases

It is important to emphasize that the economic research summarized above is necessarily limited to studying the minimum wage laws that have been implemented to date. It is therefore useful to ask how the Oakland's proposed minimum wage increase compares to those that have been implemented in the past.

The proposed ordinance would increase Oakland's minimum wage by 36.1 percent at the time of proposed implementation (in March 1, 2015, the state minimum wage will be \$9 an hour, rising to \$10 on January 1, 2016). While high, the size of the proposed increase is well within the range of other local minimum wage laws. The ten previous local minimum wage laws in the U.S. have mandated an average

increase of 43.0 percent in their minimum wage, with a range of 13.3 to 84.5 percent (this calculation includes Seattle's new law). A number of these laws were phased in over time, with the first year's increase typically the largest. Across all existing laws, first-year increases ranged from 6.7 to 65.0 percent, with an average of 25.6 percent. Again, Oakland's proposed increase falls within the range of other cities' laws.

While the proposed wage standard for Oakland is higher than is currently in effect in other Bay Area cities, Richmond, Berkeley and San Francisco are all considering wage increases that would be close to, or in the case of San Francisco, higher than, the \$12.25 an hour under consideration in Oakland.

Another measure used by economists to determine the ability of the economy to absorb higher minimum wage levels is the ratio of the minimum wage to the median wage. The proposed wage of \$12.25 is 54 percent of the median wage in Oakland of \$22.64 an hour. This ratio is within the historical range of the federal minimum wage-median ratio, which reached 55 percent in 1968 (Dube 2013), and it is lower than the 59 percent ratio in the new Seattle law.

Conclusion

Drawing on a variety of government data sources, we estimate that 40,000 to 48,000 workers would benefit from Oakland's proposed minimum wage policy, with the average worker earning an additional \$2,700 a year. Our analysis of the existing economic research literature suggests that businesses will adjust to modest increases in operating costs through reduced employee turnover costs, improved work performance, and a small, one-time increase in restaurant prices.

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Endnotes

¹ Bay Area Census analysis of 2006-2010 American Community Survey Commute Flows. <http://www.bayareacensus.ca.gov/transportation.htm>

² Bureau of Labor Statistics Local Area Unemployment Statistics.

³ U.S. Census Bureau; American Community Survey, 2005-2012 American Community Survey 3-Year Estimates, Table B08521; <<http://factfinder2.census.gov>>; accessed 6 June 2014.

⁴ U.S. Census Bureau; American Community Survey, 2008 and 2012 American Community Survey 1-Year Estimates, Table B19083; <<http://factfinder2.census.gov>>; accessed 5 June 2014.

⁵ Based on annual data. U.S. Census Bureau; American Community Survey, 2005-2012 American Community Survey 1-Year Estimates, Table B25064; <<http://factfinder2.census.gov>>; accessed 3 June 2014.

⁶ Based on annual data. U.S. Census Bureau; American Community Survey, 2005-2012 American Community Survey 1-Year Estimates, Table B19013; <<http://factfinder2.census.gov>>; accessed 3 June 2014.

⁷ According to the Quarterly Census of Employment and Wages, Oakland accounted for 25 percent of Alameda County employment in the second quarter of 2013.

⁸ U.S. Census Bureau; American Community Survey, 2010-2012 American Community Survey 3-Year Estimates, Table B08521; <<http://factfinder2.census.gov>>; accessed 6 June 2014.

⁹ Although more workers will receive an increase in our high estimate, the average wage increases are smaller because the additional workers included in the high estimate will receive below-average increases. For more detail on our estimation methods, see Welsh-Loveman, Perry and Bernhardt (2014).

¹⁰ The first estimate simply uses the characteristics of Alameda County workers. The second estimate uses the characteristics of Alameda County workers who live in or near Oakland (including Emeryville, Piedmont, San Leandro, and the city of Alameda). Oakland accounts for 79 percent of the residents in this area. The second estimate should not be interpreted as a more accurate estimate, because only 40.5 percent of Oakland workers live in Oakland.

¹¹ To determine the labor share of operating costs in retail we use data from the U.S. Census Monthly and Annual Retail Trade (<http://www.census.gov/retail/index.html>), which provides data on retail sales, merchandise purchased by retailers for resale and detailed operating expenses. We add operating expenses and purchases together to determine total operating costs. We add the costs of fringe benefits (minus health insurance) to annual payroll to estimate total labor costs. Health benefits are excluded since, unlike payroll taxes and workers compensation insurance, the costs of the benefits will not change if wages are increased. Dividing labor costs by operating costs gives us the labor share. The Retail Trade data does not provide the cost of goods purchased for resale in the restaurant industry. Industry data on gross operating surplus is available in the Bureau of Economic Analysis Input-Output Account Data (http://www.bea.gov/industry/io_annual.htm). The data was accessed from the Use Table, 2012, before redefinitions, producer value. We subtract gross operating surplus from sales to get the total restaurant operating costs and proceed as done for retail.

¹² The restaurant industry-backed Employment Policies Institute has produced three studies of Santa Fe and San Francisco (Yelowitz 2005a; 2005b; 2012). In our assessment, these studies suffer from serious methodological problems that make the results unreliable. They also offer contradictory results; see Reich, Jacobs and Bernhardt (2014) for details.

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