

Keep Sacramento *WORKING*



October 19, 2015

The Honorable Mayor Kevin Johnson
City of Sacramento
915 I Street, Fifth Floor
Sacramento, CA 95814

cc:

Mayor Kevin Johnson
Mayor Pro Tem Angelique Ashby
Vice Mayor Allen Warren
Council Member Jeff Harris
Council Member Steve Hansen
Council Member Jay Schenirer
Council Member Eric Guerra
Council Member Rick Jennings
Council Member Larry Carr

Re: **Business advocacy coalition, Keep Sacramento Working, opposes moving forward on minimum wage increase.**

Dear Mayor Johnson:

Keep Sacramento Working (KSW) is a broad coalition of 20 chambers of commerce, trade associations, and business improvement districts that formed out of concern that an overly aggressive, Sacramento-only minimum wage increase would undermine our capital city's economic momentum.

As you know, Sacramento has undergone an economic resurgence, in large part, because of the Golden 1 Center, but also because of the strength of small business-led job growth throughout the city, in particular, in the restaurant and hospitality industries.

When discussions began early in the year around Sacramento joining San Francisco in enacting a city-only minimum wage increase, KSW's coalition members recognized that such an effort would put Sacramento at a competitive disadvantage and hamper job growth, if not cost jobs outright, and hamper business recruitment. Over the ensuing months, our KSW members obtained feedback from those they represent.

Using actual data from their operations – not theoretical research – our business owners and operators started to paint a bleak picture. They predicted they would need to reduce employees, cut hours, relocate outside Sacramento, reduce hiring of youth or the inexperienced, increase costs for all consumers, including those on fixed incomes, and in the worst case scenario, close.

These small businesses also emphasized that this effort to raise the minimum wage in Sacramento would add to ever increasing burdens they must bear at the federal and state level, with paid sick leave and an increase to \$10/hour in the minimum wage in January of 2016.

Because of these concerns, KSW's partners were grateful to Mayor Johnson for convening his Income Inequality Task Force. Other cities who have enacted increases in California rammed proposals through without affording any opportunity for feedback or collaboration. Though we would have preferred a broader discussion on how we help Sacramentans move out of poverty, it was a relief that the business community would have the opportunity to provide feedback and to help move our city to the right outcome via a data-driven process, not a political one.

With the assistance of four of our KSW members, the Task Force began its work in earnest. Task Force Chair Jay Schenirer culled information from a cross section of sources in a thoughtful process, for which we commend him. During that information process, several key facts emerged. First, research from Sacramento State demonstrated that eighty percent of minimum wage earners live in households earning 150 percent above the federal poverty line and nearly 70 percent live in households above 200 percent. This bolstered arguments by Dr. Chris Thornberg with Beacon Economics that as low as 1 in 4 dollars cost by minimum wage increases actually gets to families with the greatest need.

We also learned that Sacramento is, indeed, not San Francisco. Using cost-of-living adjustments, the Task Force demonstrated that a Sacramentan need only earn \$10.38 per hour to have the same buying power of an employee earning \$15 per hour in San Francisco.

Despite these facts and the strong belief the minimum wage is a state issue, not a political battleground for local jurisdictions, the Task Force regrettably recommended an increase of \$12.50 per hour by 2020 followed by indexed increases in perpetuity. But this recommendation only advanced because of numerous exemptions and credits which helped mitigate the almost certain negative consequences for our community. These mitigation steps included a total compensation package, a youth wage, a meaningful training wage, a healthcare credit, and a delayed phase-in for "small businesses" and non-profits. Without these provisions in total, \$12.50 per hour would have never advanced. The business representatives on the Task Force negotiated a delicate balancing act with each exemption intended to blunt the blow to part of our community.

In addition, the Task Force recommendation was based on general principals in some instances, not on specific language. The business representatives on the Task force as well as the leaders of the KSW coalition knew that continued support would hinge on the details in the ultimate proposal matching the spirit of the deal negotiated. This has not come to pass.

But more critically, KSW expected the Task Force members to accept the compromise, which gave no group everything it wanted. Instead, some Task Force members have actively undermined the process by seeking a higher wage and the erasure of a critical protections – like total compensation – without offering any equally valuable concessions in exchange.

We are also concerned about the potential for a new proposal being negotiated from the dais on October 27th without proper input from those brought in to provide guidance—including five KSW member partners. Additionally, we simply don't understand the artificial pressure to reach a consensus now when we have an impending wage increase taking place on January 1st that could provide additional insights and lessons for the city of Sacramento. It is time to reset the conversation. For these reasons, and those specific concerns expressed below, **KSW will not support moving forward on a minimum wage increase in the City of Sacramento.**

KSW opposes moving forward with any increase because:

- (1) **The wage** of \$12.50 per hour without meaningful exemptions and credits puts Sacramento at a competitive disadvantage and undermines the growth potential from our public investment in downtown.
- (2) Without **total compensation** protection, the retail, restaurant and hospitality sectors, which have dominated job growth in the region, will suffer. The Task Force should amend its recommendation to include an alternative that works to protect restaurants and hospitality, such as an exemption for restaurants with on premise licenses to sell alcohol, wine, and beer. However, because total compensation also protected industries that pay their employees well above the minimum wage through commissions, any Task Force recommendation should not raise the minimum wage unless these industries are protected as well.
- (3) The **youth wage** was made applicable only to employees who are under 18 years old, which provides no meaningful opportunity for employment among young people lacking strong work histories or sufficient education. This is a tragic outcome, given that research demonstrates that (a) the failure to obtain employment during ages 16-24 is proven to impact lifetime earnings; (b) even proponents of minimum wage increases acknowledge youth employment will suffer as employers substitute out inexperienced employees for seasoned ones; and (c) Sacramento already has a higher youth unemployment rate than the national average.
- (4) The **training wage** was made applicable only to those age 25 and under in a youth job training program operated by a non-profit or government agency or those of any age who are part of a re-entry program operated by a non-profit or government agency. Businesses who administer their own formal training programs are afforded no reduced wage for the training period, which makes this provision more stringent than state law, which at least allows a company to pay an employee of any age 85% of the state minimum wage for up to 160 hours if they have little or no experience in the same or related field.
- (5) The **definition of “small business”** was arbitrarily selected as under forty employees, which is inconsistent with the definitions used by the federal Small Business Administration (SBA) and California Department of General Services (DGS) industry standards. In the entire federal industry classification schedule, only one sector type – fuel dealers – uses a number as low as 50 employees. The most common number across all industry types is 500, and in all retail industries, the number is 100. DGS’ definition for small businesses is also 100 employees. This number is also consistent with the city’s own definition for the arena.
- (6) The **phase-in delay** for small businesses and non-profits is only six months, which means they have to bear the administrative burden of having to alter budgets mid-year for the next four years. The proper phase-in delay for small businesses and non-profits should be one year for each step increase.

- (7) **The index** used for cost of living adjustments is the Bureau of Labor Statistics' "Index for Urban Wage Earners and Clerical Workers in the San Francisco-Oakland-San Jose area." This is perplexing given that it is irrefutably true that Sacramento's cost of living is not remotely comparable to the Bay Area. Looking at the historic averages, using Bay Area prices will result in a 20 percent higher increase year-over-year. Sacramento's cost of living more closely approximates Salt Lake City and other municipalities that are in the DOL's West – Class B/C classification index. This is the proper index for Sacramento.

Had all Task Force members acted in good faith, KSW's position may have been different. But we are unable to accept a \$12.50 or \$13.00 per hour increase in the city without reworking this proposal in its entirety to achieve a result that works for Sacramento and keeps Sacramento working.

Sincerely,



Peter Tateishi
President & CEO
Sacramento Metro Chamber



Jot Condie
President & CEO
California Restaurant Association



Bill Dombrowski
President & CEO
California Retailers Association



Michael T. Ault
Executive Director
Downtown Sacramento Partnership



Emily Baime Michaels
Executive Director
Midtown Business Association



Cathy Rodriguez
President & CEO
Sacramento Hispanic Chamber of Commerce



Timothy James
Senior Manager
Local Government Relations
California Grocers Association



Chris McSwain
Executive Director
Old Sacramento Business Association

Michelle Smira Brattmiller

Michelle Smira Brattmiller
Administrator
R Street Partnership

Timothy A. Murphy

Timothy A. Murphy
Chief Executive Officer
Sacramento Regional Builder Exchange

Paul Weubbe

Paul Weubbe
President
Sacramento Rainbow Chamber

John Cooper

John Cooper
Regional Business Development Manager
Associated General Contractors of America

Tom O'Neil

Tom O'Neil
Government Affairs Chair
Building Owners & Managers Association