



Date: December 31, 2015

To: Patrick H. West, City Manager *T.M.*

From: John Gross, Director of Financial Management *[Signature]*

For: Mayor and Members of the City Council

Subject: **Minimum Wage Ordinance Fiscal Impact and Recommendations**

At the August 11, 2015 meeting, the City Council approved commissioning a study on the impact of raising the City's minimum wage, and in November, the City released the Minimum Wage Study from the Los Angeles County Economic Development Corporation (LAEDC) detailing the potential benefits and impact of raising the City's minimum wage. In addition, public meetings have been conducted for residents, workers, and business owners to provide input to the Mayor, the City Council and the Economic Development Commission.

As part of this review process, the Financial Management Department has analyzed the potential fiscal impact of a Minimum Wage Ordinance in the City. Since a Minimum Wage Ordinance specifically for the City has not been developed or adopted, major assumptions were made in order to estimate the fiscal impact. The analysis assumes that any potential Minimum Wage Ordinance adopted by the City Council will mirror the City of Los Angeles Minimum Wage Ordinance. A number of other major assumptions are also made due to limitations of available data. The numbers presented should be considered rough estimates. Depending on the actual provisions of any proposed Long Beach minimum wage ordinance, the assumptions used and estimated costs will need to be updated.

Fiscal Impact Analysis Summary

Four areas of potential budget impact were analyzed: 1) staffing costs due to increasing City employee salaries to minimum wage, 2) contractor costs from City contractors potentially passing on increased cost of their staffing to the City, 3) costs from City enforcement program options related to minimum wage, and 4) potential impact of possible small business minimum wage incentives.

Staffing Costs

It is estimated that a total of 219 Full-Time Equivalent positions (FTEs) will fall below the minimum wage rate between FY 17 and FY 21. The total structural budgetary impact once the Ordinance is fully implemented in FY 21, due to increasing the salary of those below the minimum wage, is estimated to be \$1.5 million a year All Funds, of which \$1.4 million a year is the General Fund. These figures assume that the Minimum Wage requirements will mirror the City of Los Angeles Wage Ordinance. The City could choose to adopt different parameters, which would result in different costs. For instance, if the City were to only increase the minimum wage to a maximum of \$13.00 phased in over 3 years, the total structural budgetary impact by FY 19 would be \$850,303, of which \$798,254 is in the General Fund.

Contractor Costs

The potential cost from local businesses who contract with the City passing on their increasing staff costs was also evaluated. Due to limited available data and the numerous ways a business may deal with higher labor costs, the fiscal analysis provides an exposure level of the potential risk the City could face, rather than actual costs. Based on assumptions made from analyzing internal and external data sources, the increase in labor costs for businesses contracting with the City is estimated to be \$1.8 million to \$3.2 million, of which \$339,000 to \$531,000 of labor cost growth is expected for contracts purchased through the General Fund. Again, this assumes all businesses having to comply with a \$15 minimum wage. If the City were to adopt a \$13 minimum wage, the increase in labor costs for businesses contracting with the City is estimated to be \$558,000 to \$1.2 million, of which \$115,000 to \$202,000 of labor cost growth is expected for contracts purchased through the General Fund.

Enforcement Costs

In terms of enforcement, three options were considered with substantial cost differences.

- Option 1 – State Enforcement. The first option followed an approach similar to the City's current wage ordinances, e.g., Proposition N, which assumes a general compliance with State follow-up on complaints. This approach would have minimal costs to the City.
- Option 2 – City Outreach and Support - A second option, which includes City staff to provide communications, outreach and support to employers and employees, and legal costs, but no local enforcement, is estimated to have a total structural budget impact by FY 21 ranging from \$430,500 to \$724,500 in the General Fund, along with \$233,000 in one-time costs for partial funding of staff in FY 16.
- Option 3 – Direct City Enforcement - The third option, which follow a more aggressive local enforcement approach, creates a new division to conduct communications, outreach, and support as well as respond to complaints and implement appropriate enforcement measures. This model is estimated to have a total structural budget impact by FY 21 of \$1.28 million, along with \$404,833 in one-time costs for partial funding of staff in FY 16 and the acquisition of some vehicles.

If the City chooses Option 1 or 2, or some other approach where there is no direct enforcement done by the City, the City or employees of businesses could seek out resources available from the State. The California Labor Commissioner's Office, also known as the Division of Labor Standards Enforcement (DLSE), is part of the California Department of Industrial Relations and works to combat wage theft, protect workers from retaliation, and educate the public.

Two recently passed laws, AB 970 and SB 588, expand the powers and enforcement mechanisms afforded to the Labor Commissioner and the DLSE beginning in 2016. AB 970 authorizes the Commission to issue a citation to enforce local minimum wage and overtime laws provided that (1) the local entity has not cited the employer for the violation, and that,

(2) after the Commissioner issues a citation, the local entity will not cite the employer. SB 588 provides the Labor Commissioner with additional enforcement mechanisms, specifically allowing the Labor Commissioner to file a lien or levy on an employer's property in order to assist the employee in collecting unpaid wages when there is a judgment against the employer.

Given these expanded powers and enforcement mechanisms afforded to the Labor Commissioner, and the staffing and fiscal constraints faced by the City, the recommended approach by City staff is the second enforcement option that emphasizes education and outreach, as well as informing the community on enforcement resources available to them.

Small Business Minimum Wage Incentives

Potential incentives for small businesses were evaluated as a way to assist small business as they transition to a higher labor cost environment. Any actual incentive program implemented will need to review and define what constitutes a small business. In the past, the City has in certain circumstances defined a small business as having 10 or fewer employees, while according to the LAEDC report, the City of Los Angeles has defined it as 25 or fewer employees. For the purposes of this analysis, providing incentives to businesses with 25 or fewer employees was evaluated.

One possible incentive program is to provide a General Fund appropriation that would grant to small businesses an amount approximately equivalent to one-year of the business license tax, if they are located in Long Beach who have less than 10 or 25 employees as the City Council may determine is appropriate. It does not appear, however, that the value of this incentive will be close to the cost the business would bear when implementing a minimum wage. The average business license tax paid by these businesses is \$420, while, according to the LAEDC report, the average cumulative annual increase in earnings to a single job holder by FY 21 is \$5,160. If this grant program were implemented for small businesses with 1 to 25 employees, the City would see an increased cost of \$4.1 million to the General Fund.

The other alternative that was evaluated was a grant again equivalent to a typical business license tax, but for only new small businesses. Providing this incentive to small businesses with 1 to 25 employees would cost the City \$444,000 a year.

The attached report (Attachment A) contains the full fiscal impact analysis for estimated cost impact of a Minimum Wage Ordinance.

JG: BUREAU MANAGER SECRETARY
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ATTACHMENT A: PROJECTED FISCAL IMPACT ANALYSIS OF LONG BEACH MINIMUM WAGE ORDINANCE

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ATTACHMENT A:
FISCAL IMPACT ANALYSIS OF A LONG BEACH MINIMUM WAGE ORDINANCE

Fiscal Impact Analysis Summary

This analysis makes a number of major assumptions, including one that any ordinance adopted by the City Council will mirror the City of Los Angeles Minimum Wage Ordinance. A number of other major assumptions are also made due to limitations of available data. Updates to this analysis can be done based on new ordinance drafts or direction from the City Council. All numbers should be considered rough estimates based on the assumptions.

This fiscal impact analysis assumes that any Long Beach Minimum Wage requirements will follow closely the City of Los Angeles Minimum Wage Ordinance. That Ordinance increases the minimum wage to \$10.50 on July 1, 2016 and continues to increase annually to \$15.00 by July 1, 2020. Subsequently, it requires an increase annually based on the CPI-W for the LA metro area. A summary of the minimum wage based on that assumption is shown in Table 1.

Table 1 Assumed Minimum Wage Increases for Long Beach		
Fiscal Year	Date	Rate
17	10/1/2016	10.50
18	10/1/2017	12.00
19	10/1/2018	13.25
20	10/1/2019	14.25
21	10/1/2020	15.00

There are four areas of potential budget impact that are analyzed:

- 1) staffing costs due to increasing City employee salaries to minimum wage,
- 2) contractor costs from City contractors potentially passing on increased cost of their staffing to the City,
- 3) costs from City enforcement program options related to minimum wage,
- 4) potential impact of possible small business minimum wage incentives.

The analysis also briefly evaluated the potential impact on City's tax revenues, but there is not enough information available to draw any definitive conclusions. The potential budget impact is summarized in Table 2.

Table 2	Potential Budget Impact with Minimum Wage Total Structural Increase by FY 21		
Budget Area	All Funds	General Fund	Notes
Staffing	\$1.5m	\$1.4m	Cost of raises for employees below minimum wage.
Contract	\$1.8m - \$3.2m	\$339K - \$531K	Range represents exposure, but not necessarily actual costs.
Enforcement Options	Minimal	Minimal	<u>Option 1:</u> Model similar to current wage ordinance. No active outreach, enforcement or inspections.
	\$431K - \$725K	\$431K - \$725K	<u>Option 2:</u> Communications, Outreach and Support Only. No enforcement or inspections.
	\$1.3m	\$1.3m	<u>Option 3:</u> Enforcement model based on LA County model adjusted for # of businesses - complaint driven enforcement. No proactive inspections.
Minimum Wage Incentive Program	\$444K	\$444K	Providing an incentive to all new, small businesses (1-25 employees)
	\$4.1m	\$4.1m	Providing an incentive to small businesses (1-25 employees)
Revenue Impact	Unknown	Unknown	Potential increase to sales tax but unknown at this time.

Detail and Background

Staffing Costs

Based on the FY 16 Adopted Budget, there are a total of 218.52 Full-Time Equivalent positions (FTEs) that will fall below the minimum wage rate between FY 17 and FY 21. These FTEs represent 17 different classifications with hourly rates ranging from \$9.747 to \$14.963. Assuming that a budgeted FTE below the minimum wage rate will be increased to the next closest range or step available above the minimum wage, the fully loaded costs (salary plus benefits) for these 218.52 FTEs increases from \$7.2 million in FY 16 to \$8.7 million in FY 21 in All Funds, of which the costs increase from \$6.0 million to \$7.4 million in the General Fund.

The total structural increase from FY 17 to FY 21 is \$1.5 million All Funds, of which \$1.4 million is in the General Fund. See Table 3 for the structural cost increases by fiscal year. The costs in each fiscal year represents the incremental increase to the budget needed to fund the impact of minimum wage on staffing costs.

Table 3 Incremental Structural Budget Impact for City Staff						
	FY 17	FY 18	FY 19	FY 20	FY 21	Total Structural Increase
All Funds	4,957	375,184	470,162	313,318	366,284	\$ 1,529,905
General Fund	4,037	341,875	452,342	273,984	288,079	\$ 1,360,316
<i>Total FTEs Impacted Per Year</i>	<i>3.60</i>	<i>130.79</i>	<i>143.92</i>	<i>196.03</i>	<i>218.52</i>	<i>218.52</i>

As stated before, these figures above assume following the City of Los Angeles Minimum Wage Ordinance for wage increases. If the City were to establish different parameters, the costs would change. For example, if the City were to only increase the minimum wage to a maximum of \$13.00, and this was phased in over three years, the total structural increase from FY 17 to FY 19 would be \$850,303, of which \$798,254 is in the General Fund.

Potential costs associated with any compression issues (i.e. positions with increased salaries that are too close to their supervisors) were also evaluated. Of the positions directly impacted by minimum wage, the salaries of any associated lead or supervisory positions were reviewed. The hourly rate of the closest leads or supervisory positions ranged from 12 percent to over 100 percent above \$15 an hour. Given that the closest lead/supervisory position is paid 12 percent over the minimum wage rate once fully implemented by FY 21, no costs associated with compression have been identified at this time.

While no compression costs are included in this analysis, compression issues and associated costs may be an issue of concern and focus in the future. The City of Los Angeles Minimum Wage Ordinance includes language that starting from July 1, 2022, and every year after, the minimum wage will increase based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the Los Angeles metropolitan area, published by the Bureau of Labor Statistics. If the City of Long Beach were to include similar provisions in its Minimum Wage Ordinance, there would be additional salary cost increases, which could be perceived as setting the floor for bargaining. There would also likely be future compression issues and associated costs as only a certain subset of positions would continue to increase by CPI and not in proportion to the current salary structure across the City. These issues would likely have to be evaluated and addressed through the City's negotiation process with its Employee Bargaining groups.

Contractor Costs

To the extent that local businesses who contract with the City face higher costs as a result of the new Minimum Wage Ordinance – and those costs are passed on to the City through higher prices – the City will face increased contract costs for similar levels of service. The purpose of this section is to provide an estimate of exposure the City could face with this potential growth in contract costs.

There are a number of challenges in projecting the impact a Minimum Wage Ordinance might have on contract costs. First, as stated in the LAEDC report on minimum wage policy, employers face a number of options in dealing with higher labor costs from an increased minimum wage. These options include: reducing employment; reducing other payroll-related

costs; reducing wage growth of unaffected employees; replacing affected employees with more productive employees; replacing workers through automation; accepting lower profits; relocations or closure; and finally – most pertinent to this analysis – passing cost increases to customers through increased prices. Given the numerous choices available to businesses, it can be difficult to determine the degree to which companies will rely upon price increases to deal with labor cost growth as opposed to other options available.

Second, not all businesses that the City contracts with will be subject to the new Minimum Wage Ordinance (although they may be subject to those adopted in other cities). For instance, companies who are located in another city, but who produce goods for delivery to the City, will face minimal labor cost growth as a result of a Long Beach Minimum Wage Ordinance. As a result, City contracts relating to goods supply have been excluded from our analysis of potential contract cost increases, although cost of goods could be impacted by more general increases in the minimum wage. In addition, construction contracts are subject to prevailing wages which are higher than \$15 an hour, so the analysis assumes no impact to costs of construction contracts.

Finally, the City does not collect information from businesses on the number of employees who are currently paid at or below the proposed minimum wage level. Without this data, it is difficult to project the impact that a Minimum Wage Ordinance will have on businesses that the City contracts with, and by extension, what costs may be passed on to the City. To address this information gap, staff applied a number of data sets available from external agencies to estimate the number of workers employed by businesses who contracted with the City in FY 15 that currently earn a wage that falls below the proposed \$15 per hour minimum wage level (i.e., United States Census Bureau data, and Bureau of Labor Statistics data).

The results are listed in Table 4 below. Staff estimates that approximately 3,321 full time equivalent employees (FTEs) are employed through contracts with the City. The number of workers is likely much more, as each FTE may represent multiple part time employees, together producing the number of hours equivalent to one full-time staff person. Of the 3,321 FTE, we estimate that 343 to 628 FTE earn less than the proposed \$15 per hour minimum wage. This represents the number of full-time equivalent employees working under City contract who would likely receive higher pay should the Minimum Wage Ordinance pass.

Assuming all of these workers retain employment, the resulting increase in labor cost for businesses contracting with the City is estimated to be \$1.8 million to \$3.2 million. Of this amount, \$339,000 to \$531,000 of labor cost growth is expected for contracts purchased through the General Fund. These ranges were extrapolated using our estimated number of impacted employees and the LAEDC report, which provides an estimate of the average annual increase in earnings of per employee should the minimum wage be increased to \$15 per hour.

Table 4 Service Contracts Potentially Impacted by Minimum Wage						
Fund	Vendor Payments (Service Contracts)	Est. No. of Employees (Service Contracts)	Est. No. of Employees (Below \$15 Per Hour)		Est. Exposure of City to Labor Cost Increases	
			Low End	High End	Low End	High End
General Fund	\$ 32,406,316	237	66	103	\$ 339,303	\$ 531,406
All Funds	\$ 752,413,739	3,321	343	628	\$ 1,771,503	\$ 3,242,231

For comparison sake, if the assumption were to change and only a \$13 minimum wage was adopted instead of \$15, the resulting increase in labor cost for businesses contracting with the City is estimated to be \$558,000 to \$1.2 million. Of this amount, \$115,000 to \$202,000 of labor cost growth is expected for contracts purchased through the General Fund.

Staff estimates this range to be the on the higher end of the exposure the City faces in potential cost increases. As stated earlier, the degree to which companies pass these labor costs on to the City will depend upon their willingness to deal with increased labor costs through other means. However, as mentioned earlier, since this analysis is based on outside data sources rather than actual employees of city contractors, the amounts represent very preliminary estimates of potential impact, which could ultimately be lower or higher than estimated.

Enforcement Costs

There are a variety of enforcement options that the City could choose with substantial cost differences. This analysis looks at three.

Option 1 – State Enforcement

This option would follow the approach used by the City with its current wage ordinances, (e.g., Proposition N). Compliance is by the State, which would follow-up on complaints at its discretion. Employees of businesses and firms who claim they are not being paid minimum wage can either file a wage claim with the Division of Labor Standards Enforcement (also known as the State's Labor Commissioner's Office within the Department of Industrial Relations), or file a lawsuit in court against their employer seek reparations through this route. In addition, beginning in 2016, the City could also ask the State Labor Commissioner to enforce the City's Minimum Wage Ordinance and to issue citations and penalties for violations. The City could conduct some outreach and promotion of the Ordinance within existing outreach channels to provide awareness of the Ordinance to the community. This approach would have minimal costs to the City and no structural budget impact.

Option 2 – City Outreach and Support

For Option 2, the City would add two staff to perform education, outreach, training, and provide other support to employers and employees, while looking to the State for any enforcement measures similar to Option 1. This option includes the addition of an Officer who would help supervise the outreach program under an existing City division, a Public Affairs Assistant to focus on communications and public outreach, funds of \$100,000 to contract with community groups to perform outreach to affected workers and employers, and some materials budget for production and distribution of informational documents. The two FTEs would also serve as a resource to anyone calling in with inquiries on the Minimum Wage Ordinance and assist in directing people to the right resources, including the State resources described in the first model. Additionally, a range of potential contract costs were included for the City Attorney's Department, as there will be work in interpreting and responding to questions regarding the Ordinance.

Option 3 – Direct City Enforcement

Under Option 3, the City could follow a local enforcement approach similar to what was adopted by the County of Los Angeles. The County of Los Angeles has created a County Wage Enforcement Program (WEP) to be housed in their Department of Consumer and Business Affairs (DCBA). The County's program will start with 5 new budgeted positions in FY 16, and then expand to 11 budgeted positions in FY 17. Their program will focus on education and outreach, comprehensive training on wage complaint investigations, development of internal policies, procedures and operation manuals, along with wage theft investigation and enforcement (i.e. citations, settlements, appeals, collection and disbursement of back wages, etc.). Given that Long Beach has fewer firms within its jurisdiction than Los Angeles County has in its unincorporated areas, and it is unlikely that Long Beach will have the same enforcement costs as the County, this option assumed the creation of a new division with roughly half of the FTEs compared to the County. This new Division would include a Division Manager to manage the entire program and develop policies and procedures, an Administrative Analyst II to support the Division Manager, a Public Affairs Assistant to focus on communications and public outreach; and three investigator FTEs to do investigative and compliance work, for a total of 6 FTEs. This option also includes funding of \$150,000 for contracts with community groups, materials budget, and budget for the acquisition and maintenance of City vehicles. Additionally, as this approach will involve the City Attorney's Department, the cost of a Deputy City Attorney and a Legal Assistant has also been included.

Table 5 shows the estimated incremental structural increases for the three options with increases in the out-years included for estimated fringe benefit cost increases. The table also shows the total one-time costs needed that includes partially funding staff for a portion of FY 16 in the second and third options to start developing policies, procedures and plans before the implementation of the Ordinance, as well as the one-time acquisition cost of the vehicles in the third option.

This analysis also does not include any possible new revenue collected from fines charged to businesses that are not in compliance with the Minimum Wage Ordinance. Nor does it include potential revenue, which could be explored, from implementing a regulatory fee that could be charged to all businesses with employees in Long Beach. Such a fee would need to comply with California Propositions 218 and 26, which require any fee to be imposed in an amount necessary to carry out the purpose and provisions of a regulation and to not exceed the costs of providing the service. Whether or not a combined fine and fee structure would cover the potential costs of a Long Beach Minimum Wage Ordinance will need to be evaluated.

Table 5 Incremental Structural Budget Increase for Enforcement Division							
General Fund	FY 17	FY 18	FY 19	FY 20	FY 21	Total Structural Increase	One Time Need (Includes ramp up costs in FY 16)
Option 1: Current Enforcement Level for Wage Ordinances	Minimal	Minimal	Minimal	Minimal	Minimal	Minimal	NA
Option 2: Communications, Outreach and Support Only							
Non-legal staff and material costs	359,900	4,998	5,098	5,200	5,304	380,500	118,333
Ordinance interpretation & other legal support (contract funds)	50,000 - 344,000	-	-	-	-	50,000 - 344,000	114,667
Total:	409,900 - 703,900	4,998	5,098	5,200	5,304	430,500 - 724,500	233,000
Option 3: Communications, Outreach and Support Plus Investigations							
Non-legal staff and material costs	849,120	13,382	13,650	13,923	14,202	904,277	404,833
Ordinance interpretation & other legal support (new staff)	344,250	6,885	7,023	7,163	7,306	372,627	-
Total:	1,193,370	20,267	20,673	21,086	21,508	1,276,904	404,833

Depending on any Enforcement Ordinance adopted by the City and the details provided in that Ordinance, this assumed staffing would need to be reevaluated to assess whether it is sufficient or appropriate. Depending on how aggressive the enforcement model is, additional staffing and resources may be needed. For instance, the City of Los Angeles has created a new enforcement division, the Office of Wage Standards, and aims to increase staffing to nearly 40 employees by the year 2020.

Small Business Minimum Wage Incentives

The LAEDC report included a mitigation strategy option to provide business license fee waivers to assist small businesses as they transition to a higher labor cost environment. The City could explore additional incentives to small businesses, which would be a credit against the business license paid by the small businesses. Any incentives would be paid from General Fund, and not be an actual reduction to business license tax revenues. With any incentive program the City considers, the City will need to evaluate what constitutes a small business. In the past, the City has defined a small business as having 10 or fewer employees, while according to the LAEDC report, the City of Los Angeles has defined it as 25 or fewer employees. For the purposes of this analysis, providing incentives to businesses with 25 or fewer employees was evaluated.

The City could consider providing a General Fund appropriation that would provide an incentive roughly equivalent to a one-year waiver of business license tax for a typical small business. It does not appear, however, that the value of this incentive will be close to the cost the business would bear when implementing the minimum wage. The average business license tax paid by these businesses is \$420. Conversely, per the LAEDC report, the average cumulative annual

increase in earnings to a job holder by FY 2021 is \$5,160, which is roughly an increase of \$2.50 an hour for one FTE. This average cost increase of \$5,160 for just one FTE compared to a one-time savings of \$420 for a small business illustrates that an incentive equivalent to a business license fee is an almost 10 fold difference.

The City currently has 11,406 businesses that are located in Long Beach who have 1 to 25 employees. This figure includes independent contractors, home based businesses, and out of City-based businesses who have employees that work part-time in Long Beach. The business license tax revenue generated annually by these businesses totals \$4.1 million, while all businesses, with 0 employees and higher, generate an estimated \$7.2 million annually. This excludes revenue generated from residential rentals and commercial/industrial rentals. A one-year waiver of business license tax for these businesses would therefore result in an estimated cost to the General Fund of \$4.1 million.

Another potential incentive that would have less of an impact to the City's General Fund is to only provide new, small businesses who open each year a General Fund incentive payment that is the equivalent to the average first year small business license tax. On average, 1,617 new small businesses (1 to 25 employees) open each year in Long Beach. This figure includes independent contractors, home based businesses, and out of City-based businesses who have employees that work part-time in Long Beach. These new small business generate on average \$444,000 in business license taxes in their first year, which would then be the approximate cost to the City to provide this incentive. This incentive could be offered each year during the five-year ramp up period or it could be offered indefinitely as an incentive for small business to locate in Long Beach.

Overall Economic and Revenue Impacts

We do not have adequate information to assess the impact a Minimum Wage Ordinance on the City of Long Beach's general economic status (i.e. potential increased sales tax revenue with higher wages, or lower sales tax with employees potentially being laid off).