



Information Item

Date: June 5, 2015

To: Mayor and City Council
From: Gigi Decavalles-Hughes, Director of Finance
Subject: Los Angeles Minimum Wage

Introduction

The Los Angeles City Council has approved an ordinance raising the Los Angeles hourly minimum wage to \$15 by 2020. The process to reach this point began September 7, 2014, with Mayor Eric Garcetti's announcement of his goal to increase the minimum wage. In the intervening months, the City Council's Economic Development Committee updated the proposed target, and the government, business, and labor communities commissioned studies assessing the proposed policy's economic impact on the City of Los Angeles.

At its [September 9, 2014](#) meeting, the Santa Monica City Council directed staff to follow and analyze Mayor Garcetti's proposal to raise the minimum wage in the City of Los Angeles and, further, to analyze the effect that raising the minimum wage in Los Angeles would have on the City of Santa Monica. Council further directed staff to place a discussion regarding the possibility of raising the minimum wage in Santa Monica on the Council agenda, in the event that the City of Los Angeles implements the minimum wage increase.

This report provides a brief background for the City of Los Angeles' minimum wage proposal, including a summary of the range of projected impacts on the Los Angeles workforce and economy according to the various studies. It then presents Santa Monica's next steps in relation to the minimum wage policy.

Discussion

Minimum Wage Proposal

The Los Angeles City Council has approved a phased minimum wage increase with a target of \$15 per hour by 2020. Beginning in 2016 the rate will increase incrementally, effective July 1 of each year, as shown in the table below. Businesses with 25 or fewer employees will have an additional year to comply with the law, and some nonprofits can qualify for waivers. Beginning in 2022, the minimum wage will increase annually based on a Consumer Price Index (CPI) prior 20-year average. Council approved the ordinance establishing these changes in June 2015.

Year	Rate
2016	\$10.50
2017	\$12.00
2018	\$13.25
2019	\$14.25
2020	\$15.00

Los Angeles Mayor Eric Garcetti initially proposed increasing the minimum wage in the City of Los Angeles annually over a period of three years, with a target of \$13.25 by 2017, indexed to inflation in subsequent years. The Los Angeles City Council's Economic Development Committee proposed an additional increase to \$15.25 in 2019, again followed by annual CPI increases. Studies of the proposal's impact are based on these numbers.

Context

The City of Los Angeles has a high cost of living and a significant number of residents at or below the poverty level. Among cities that have passed minimum wage laws, Los Angeles is at the low end in its median annual earnings and at the high end in its poverty and unemployment rates. Los Angeles is larger and less contained than other cities with recent minimum wage increases, and the total increase represents a greater percentage change than experienced in other cities. The \$15.00/hr. target represents a 67% increase over the current \$9.00/hr. rate, while the average total percentage

increase across 19 cities with recent minimum wage changes (total percentage increase from the wage level before the law was implemented to the final step) is 31.8%.

Community Response

Los Angeles community response has been varied and fairly predictably split along business and labor lines, with some small and large businesses supporting the Mayor's proposal. The Los Angeles Area Chamber of Commerce and the Valley Industry & Commerce Association, for example, have publically spoken against the proposal, while the Los Angeles County Federation of Labor and a variety of unions and community organizations have endorsed it. Government, business, and labor groups around Los Angeles have debated the proposal's potential impact.

Estimated Impact

An initial study commissioned by Mayor Garcetti out of UC Berkeley's Institute for Research on Labor and Employment projected mostly positive impacts, with large income gains to lower income and largely minority workers, small price increases, and little impact on employment or the area's economic growth. In response to the announcement and to provide other viewpoints and deeper analysis, the City Council Economic Development Committee, Los Angeles Area Chamber of Commerce and the Los Angeles County Federation of Labor requested additional studies that produced varying results.

The Los Angeles County Board of Supervisors commissioned a peer review of these studies. The outcomes are summarized below. Studies are fairly consistent in their estimates of the total wage increase associated with the proposal and number of individuals affected, but differ in their estimates of employment and economic growth impacts. Information from the studies and peer review provides insight into common minimum wage debates.

	Introductory Analysis	UC Berkeley	Beacon Economics	Economic Roundtable	Peer Review
Description					
Title	The Mayor of Los Angeles' Proposed City Minimum Wage Policy: A Prospective Impact Study	The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options	Cost-Benefit Analysis: Los Angeles Minimum Wage Proposal	Los Angeles Rising: A City That Works for Everyone	Technical Review of Studies Related to the Citywide Minimum Wage Proposal in the City of Los Angeles
Author	Institute for Research on Labor and Employment, University of California, Berkeley	Institute for Research on Labor and Employment, University of California, Berkeley	Beacon Economics	Economic Roundtable, UCLA Institute for Research on Labor and Employment	Drs. Till von Wachter and Jeffrey Wenger
Commissioned by	Mayor Eric Garcetti	Los Angeles Economic Development Committee (City Council)	Los Angeles Area Chamber of Commerce	Los Angeles County Federation of Labor	Los Angeles County Board of Supervisors
Competitively bid	No	Yes	No	No	Yes
Parameters	\$13.25 by 2017 Increases tied to inflation	\$13.25 by 2017 \$15.25 by 2019 Increases tied to inflation	\$13.25 by 2017 Increases tied to inflation	\$13.25 by 2017 \$15.25 by 2019 Increases tied to inflation	Review data, assumptions, methodology of three studies.
Major conclusions	<p>Large gains to low income individuals and communities of color.</p> <p>Affected workers mostly middle age, with families.</p> <p>Income gains contribute to economic growth.</p> <p>Negative employment effects for restaurants.</p> <p>Higher price pass through.</p>	<p>Benefits will largely outweigh costs.</p> <p>Net positive economic impact for County.</p> <p>Fairly minor job loss / GDP loss for LA City.</p> <p>Need safeguards for non-profits or other vulnerable industries.</p> <p>Monitoring and enforcement critical.</p>	<p>Significant negative impacts on economic growth and employment.</p> <p>Benefits won't target needy families with children.</p> <p>A longer phase-in period or some exemptions would mitigate negative impacts.</p>	<p>Significant benefit to workers, and overall economy.</p> <p>Losses to business offset by increased productivity, decreased turnover.</p> <p>Increased city revenue / lower assistance payments.</p> <p>Vulnerable industries will require some adjustments, review.</p>	<p>UC Berkeley projections were most grounded in accepted research.</p> <p>Its assumptions and projections were most reasonable.</p> <p>Could not rule out either the more positive or more negative projections given uncertainties in existing research.</p> <p>Recommended strong monitoring and enforcement.</p>

Santa Monica Response

The Los Angeles minimum wage increase provides an opportunity for Santa Monica to consider a similar proposal. Such a change will have implications for Santa Monica businesses, residents, and employees. Santa Monica's economy, demographics, and geography are different from those of Los Angeles. Projections for employment, economic growth, wage gains, and impact on the area contained in studies are based on data specific to Los Angeles's business community, workers, size, and proximity to other cities. To responsibly consider the development of an ordinance that would increase the minimum wage, it will be important to understand what differentiates Santa Monica's economy from that of Los Angeles, and what elements should be addressed in the ordinance.

Staff is preparing to issue a request for proposals for a consultant to gather and analyze data on the impacts of a minimum wage increase on Santa Monica's workers and businesses. The resulting study would provide a comprehensive view of the City, including its economic activity and general demographics, highlighting types of business and specific populations potentially most impacted by a minimum wage increase. It would consider the increase in the context of current living wage and prevailing wage provisions, and issues faced by Los Angeles, including exemptions for unionized organizations or small businesses, as well as any enforcement mechanisms that would be necessary to ensure its successful implementation.

The consultant would present their findings to the community in forums and gather and assess feedback. This feedback could then inform Council in directing staff to develop a potential ordinance.

Staff anticipates that this work will be completed in early fall. This timing would prepare Santa Monica to implement a similar policy, if recommended, in the same time frame as Los Angeles's first increase in July 2016.

Staff will return to Council with results and any associated recommendations following the study's completion.

Prepared By: Stephanie Lazicki

Attachments

- A. [The Mayor of Los Angeles' Proposed City Minimum Wage Policy: A Prospective Impact Study \(Introductory Analysis, UC Berkeley\)](#)
- B. [The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options \(UC Berkeley\)](#)
- C. [Cost-Benefit Analysis: Los Angeles Minimum Wage Proposal \(Beacon Economics\)](#)
- D. [Los Angeles Rising: A City that Works for Everyone \(Economic Roundtable\)](#)
- E. [Peer Review of Citywide Minimum Wage Studies](#)