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EXAMINING THE COSTS OF THE CITY OF OAKLAND'S \$12.25 MINIMUM WAGE



Employment
Policies

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INTRODUCTION

In November 2014, residents of the Bay Area cities of San Francisco and Oakland voted in favor of minimum wage increases for most businesses in the city limits. The San Francisco proposal will raise the city's minimum wage to \$15 an hour by 2018; in Oakland, the minimum wage rose by 36 percent to \$12.25 an hour on March 1st. (The Oakland proposal also included a paid time off provision.)

San Francisco's proposal begins phasing in on May 1st, but the Oakland proposal is already in full effect, making possible an evaluation of the short-term consequences.

The labor unions supporting the Oakland proposal argued that it would reduce poverty and even stimulate the economy, as lower-paid employees had more dollars to spend. A team of researchers at the University of California-Berkeley, who have labor union connections, released a study estimating that the costs of the 36 percent hike would be negligible.

Subsequent press reports, however, suggest that the costs have been anything but negligible. Articles in the *San Francisco Chronicle* and *East Bay Express* have chronicled price increases far beyond the level predicted by the Berkeley team, as well as business closures in the city's Chinatown neighborhood.

This survey, conducted by phone just under one month after Oakland's wage increase took effect, is intended to catalog a broader range of anecdotes from affected businesses in Oakland. Over 1,300 businesses were contacted, and 223 participated in the survey. We also conducted in-depth follow-up interviews with three of these businesses, to provide more personal detail on the impact of the new law. The results, while not representative of the city as a whole, suggest that the costs of the law are more significant than proponents acknowledged.

RESULTS

The survey focused specifically on those Oakland businesses that had to increase employee wages as a result of the new minimum wage. The industries and sizes of the surveyed businesses are available in the Appendix. Most of the businesses—about 70 percent—had 15 or fewer employees. Surveyed businesses represented a broad range of industries, with the largest category of respondents (~20 percent) representing restaurants or bars.

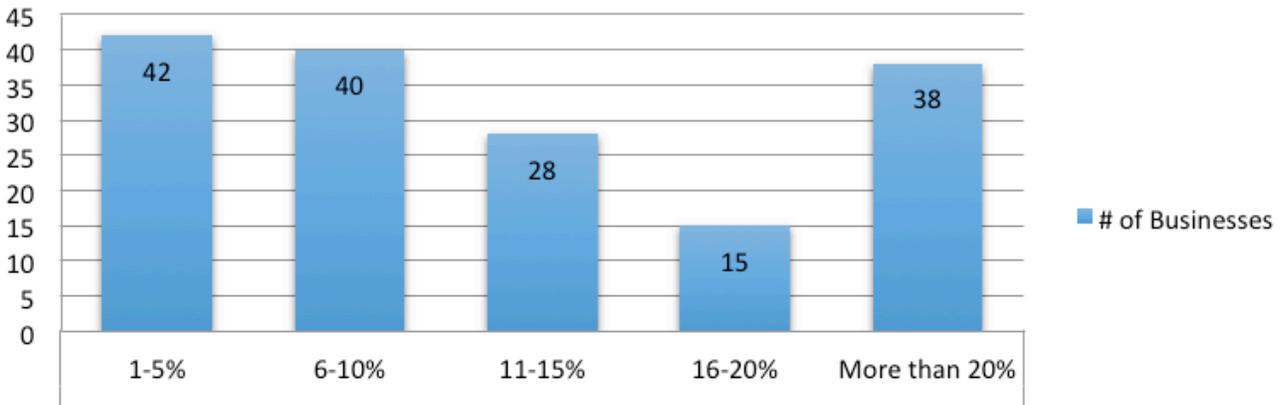
The survey didn't ask the business owner to estimate the dollar amount of wage increase; however, of the 223 businesses surveyed, 56 percent reported that the new minimum wage caused a large increase in their labor costs.

Would you say that the \$12.25 wage caused a large increase in your labor costs, a small increase in your labor costs, or no increase?

| | | |
|--------------------------|------------|------------|
| LARGE | 125 | 56% |
| SMALL | 66 | 30% |
| NO INCREASE | 18 | 8% |
| UNDECIDED/REFUSED | 14 | 6% |

The surveyed businesses were not all able to estimate the percentage increase in their labor costs. However, of the 163 businesses that were able to estimate the percentage increase, roughly half reported a labor cost jump of more than 10 percent. Nearly one in four reported a labor cost increase of more than 20 percent.

Can You Estimate the Percent Increase in Your Labor Costs?



Given the range of cost increases experienced by the surveyed businesses, it follows that the actions taken in response will vary. While many of the stories covering the Oakland wage increase have focused on resulting price hikes, one piece in the *San Francisco Chronicle* noted that some businesses in the city’s Chinatown were closing at least partially as a consequence of the increase.

Of the businesses surveyed here, roughly one in 10 said it was “very likely” to close, with another 18 percent “somewhat likely” to close.

How likely is it that you’ll have to close in response to this law?

| | | |
|--------------------------|------------|------------|
| VERY LIKELY | 20 | 9% |
| SOMEWHAT LIKELY | 41 | 18% |
| NOT LIKELY | 149 | 67% |
| UNDECIDED/REFUSED | 13 | 6% |

Closing is the most severe of minimum wage consequences; we also surveyed businesses on a range of other consequences, with the results presented in the tables below. Taken actions include:

- Half of the surveyed businesses used price increases to offset the additional labor costs;
- Thirty percent of the surveyed businesses reduced their employees' hours or their hours of operation to offset the costs;
- Seventeen percent, or roughly one in six surveyed businesses, laid off employees or otherwise reduced staffing levels to adapt to the higher costs;

Have you raised the prices in response to the wage increase?

| | | |
|--------------------------|------------|------------|
| YES | 105 | 47% |
| NO | 105 | 47% |
| UNDECIDED/REFUSED | 13 | 6% |

Have you reduced your employee's hours or your hours of operation in response to the wage increase?

| | | |
|--------------------------|------------|------------|
| YES | 68 | 30% |
| NO | 146 | 65% |
| UNDECIDED/REFUSED | 9 | 4% |

Have you laid off employees or otherwise reduce staffing levels in response to the wage increase?

| | | |
|--------------------------|------------|------------|
| YES | 38 | 17% |
| NO | 173 | 78% |
| UNDECIDED/REFUSED | 12 | 5% |

The last set of survey questions asked businesses about their location and expansion decisions in response to the new law. Thirty percent of respondents said they had decided to delay or halt further expansion in the city because of the new law; seventeen percent said they would move current or future operations outside the city limits as a consequence.

Have you decided to delay or otherwise halt further expansion within the city of Oakland?

| | | |
|--------------------------|------------|------------|
| YES | 67 | 30% |
| NO | 134 | 60% |
| UNDECIDED/REFUSED | 22 | 10% |

Have you decided to move current or future business operations outside the city of Oakland?

| | | |
|--------------------------|------------|------------|
| YES | 39 | 17% |
| NO | 152 | 68% |
| UNDECIDED/REFUSED | 32 | 14% |

CASE STUDIES

To supplement these survey results, we called survey respondents in Oakland to see if they'd be willing to share greater detail about the law's impact on their business. The three case studies below represent small businesses from three different industries, all of whom are struggling to adapt to the higher costs. (Two of the businesses asked not to be identified by name.)

- **Apparel Manufacturer**

The owners—a husband and wife—started their business in 1990, sewing apparel for larger companies. Today, they subcontract for an apparel company based in San Francisco.

The company's workforce historically consisted of the husband and wife, as well as five to six other employees depending on the workload. But when the minimum wage rose by 36 percent on March 1st, things changed.

The owner explained that, as a sewing subcontractor, sizable price increases to offset the cost were not an option. They're in competition with other businesses in nearby cities who aren't facing the same labor cost increases.

Their solution was to increase prices minimally, and cut staff significantly: Now, the business operates with 1-2 additional employees plus the husband and wife team, who are working from 9 am to 8 pm to keep the business running. They plan to continue this low-staffing arrangement for 6-12 months to see if it's feasible – if not, they'll re-evaluate whether to keep the business open.

The owner expressed frustration with the sentiment that all business owners have money to spare: "They think—you have your own business, you're supposed to be making money. For small business, it's not like that. It's the owners who are doing the work."

- **Seafood Restaurant**

The owner of this restaurant moved to Oakland in 1991. He moved outside of the city in 2010, but maintained his connection to his old neighborhood, and decided to start a restaurant in the city 8-9 months ago. It's a sit-down restaurant that serves seafood; he staffed it with himself and three other employees. (Two employees served the customers and worked out front; the other two worked in the kitchen.)

Starting this business wasn't easy, and there were a number of costs involved. "It's not like I'm making a big profit," the owner said. The situation became considerably more difficult at the beginning of March, when the minimum wage increased. The owner couldn't absorb the higher labor costs, and raising prices wasn't an option when he was still building a base of customers.

To cover the cost, he had to let two of his three employees go. Now, the business is run by himself and one other employee, plus his wife comes in to help at times. The owner said that he doesn't know what he'll do long-term, and that it's possible he'll close: He doesn't like to be understaffed like he is, but he can't afford to pay more employees at the new minimum wage.

He said he'd have more flexibility if the restaurant were an established business, but that expecting a new, small business like his to absorb this kind of cost increase was unreasonable.

- **Childcare Provider**

Sterling's Family Childcare is owned by Muriel Sterling, and has been in operation since 1974. She runs the business out of her home, and serves a predominantly low-income clientele. Some of the families she works with receive a government subsidy for childcare; others are on a private plan.

She's tried to provide her services at as low a cost as possible, and work with the hardships faced by her customers, while still keeping the business profitable. Sterling said that some customers pay her late each month; she provides free transportation to the daycare in the morning for others.

The dramatic Oakland minimum wage increase has upset this balance, and

the owner is looking at cutbacks for the first time in her business's existence. Sterling had to put up a sign warning customers that higher rates were coming soon, at least for those customers on the private plan.

Sterling has had to reduce employees' hours, too. She has four employees, some of whom used to start as early as 7:30 am. Now, Sterling handles much of the work herself in the morning, and the employees don't arrive until 10 or 11. Because she's staffing those early morning hours by herself, she's also had to stop providing free transportation to low-income families.

Sterling said it would be nice to keep things as they are, but she just can't afford to continue paying out more than she brings in. Her facility isn't the only one: She said there are other childcare providers who are grappling with the same difficult decisions, and are even considering reducing the number of children they watch.

The survey was conducted by phone by Connection Strategy between March

APPENDIX

23rd and 25th. Follow-up interviews were conducted by EPI between March 31st and April 3rd. 1,362 total contacts were made, and 223 surveys were completed. 274 numbers were not in service, 38 were unreachable, and 1,139 declined to participate. Survey respondents were all of those who answered “yes” to a screening question on whether they had to raise wages in response to the law.

Data on business size and industry of the respondents is provided below.

**Can you tell me approximately how many employees do you have at your locations (both in and out of Oakland)?
What category best describes the industry your**

| | | |
|--------------------------------|------------|---------------|
| 1-15 EMPLOYEES | 158 | 71% |
| 16-30 EMPLOYEES | 27 | 12% |
| 31-50 EMPLOYEES | 15 | 7% |
| 51-100 EMPLOYEES | 8 | 4% |
| 101-500 EMPLOYEES | 3 | 1% |
| MORE THAN 500 EMPLOYEES | 1 | <1% |
| UNDECIDED/REFUSED | 11 | 5% |

business is in?

| | | |
|---|-----------|---------------|
| FOOD PRODUCTION OR PACKAGING | 22 | 10% |
| CONSUMER GOODS MANUFACTURING | 12 | 5% |
| RESTAURANT OR BAR | 45 | 20% |
| WHOLESALE TRADE | 3 | 1% |
| GROCERY STORE OR FOOD MARKET | 13 | 6% |
| DEPARTMENT STORE OR OTHER CLOTHING STORE | 13 | 6% |
| NON-CLOTHING RETAIL OR CONVENIENCE STORE | 27 | 12% |
| SERVICE STATION OR OTHER AUTOMOTIVE SERVICES | 16 | 7% |
| HOTEL OR MOTEL | 3 | 1% |
| BARBER OR BEAUTY SHOP | 10 | 4% |
| LAUNDROMAT OR CLEANER | 1 | <1% |
| DAY CARE | 6 | 3% |
| OTHER CONSUMER SERVICE BUSINESS | 28 | 13% |
| OTHER OUTLET | 14 | 6% |
| UNDECIDED/REFUSED | 10 | 4% |