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**Proposition I: Referendum of Ordinance Regarding Earned Sick Leave and
Minimum Wage**
April 2016

SDCTA Position: OPPOSE

Rationale for Position: The SDCTA opposes Proposition I, a referendum on Ordinance O-20390, which would increase the minimum wage in the City of San Diego. Staff bases this recommendations on the findings of the SDCTA's 2014 study on the topic. That study noted, among other findings, that increasing the minimum wage is a blunt instrument for alleviating poverty because much of the wage increase would be inherited by households other than those below the poverty line (such as middle class households with a teenager earning minimum wage). In addition, this measure would put the small businesses that employ a majority of minimum wage workers in the city at a competitive disadvantage when compared to other cities in the regional area in the time between when this measure and the recently passed statewide minimum wage increase pass. SDCTA staff recommends that policy makers look to other solutions for alleviating poverty, such as expanding the earned income tax credit and improving access to educational programs.

Title: Proposition I: Referendum of Ordinance Regarding Earned Sick Leave and Minimum Wage

Jurisdiction: City of San Diego

Type: Referendum

Vote: Simple Majority (not subject to Mayor's veto)

Status: On the June 7, 2016 Municipal Election Ballot

Issue: Minimum Wage

Description: Per the City Clerk's ballot summary:

"The ordinance is on the ballot as a result of a referendum petition that qualified the measure for the ballot, and a City Council vote to place the Ordinance on the ballot. The Ordinance establishes that specified employers are to compensate employees working in the City of San Diego with earned sick leave of up to forty hours a year and a minimum wage of \$10.50 an hour upon the Ordinance's effective date, \$11.50 an hour on January 1, 2017, and increasing with the cost of living on January 1, 2019 and annually thereafter."

Fiscal Impact: The fiscal impacts of this measure are complex and uncertain. Significant literature suggests that minimum wage increases result in decreases in employment and increases in prices for goods. There is some debate as to the extent of these effects.



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Background:

In his 2014 State of the City Address, Interim Mayor Todd Gloria announced his intention to raise the citywide minimum wage in an effort to alleviate poverty and income inequality in San Diego. At the time, Gloria stated:

“Our local economy is only truly strong if it works for all San Diegans. The high cost of living, coupled with growing income inequality, is a threat to our ability to build a great city. San Diego must not be divided between the very wealthy and the very poor. A great city must have a vibrant and growing middle class. That is why I believe it is time to support an increased minimum wage for San Diego.”¹

This announcement led to a legislative push to develop and pass a citywide minimum wage effort, which ultimately resulted in the ordinance that is the subject of this referendum. This ordinance, O-20390, was passed by the City Council on August 18, 2014. Driven by concerns over the effect this minimum wage increase would have on employment and local businesses, a coalition of local groups formed to press for the ordinance to be put to a citywide vote by referendum. This effort was ultimately successful, resulting in a stay of the minimum wage increase until the item could be voted upon by the people.

In June of 2014, the SDCTA released a study entitled, “Minimum Wage and Poverty in San Diego” in partnership with the San Diego Regional Chamber of Commerce examining the reasons provided for increasing the minimum wage, the effect the wage increase would have to local businesses, and potential alternatives to raising the minimum wage for the purpose of alleviating poverty. This study was sharply critical of research that was cited explicitly in the creation of the minimum wage ordinance and which was used to shape its provisions. Among the reasons cited by minimum wage advocates at the time was the finding that the minimum wage required for a “no frills, bare bones” existence in San Diego was much higher than the minimum wage at that time.² The SDCTA’s study pointed out methodological flaws in this study that did not take into account the range of reasonable choices those making minimum wage could utilize to decrease their cost of living.³

Since the minimum wage ordinance was put up to a referendum, a statewide movement to increase the minimum wage has resulted in the passage of the Fair Wage Act of 2016.⁴ Once

¹ Gloria, Todd. “2014 State of the City Address.” January 14, 2014.

² Center on Policy Initiatives. “Making Ends Meet”. 2014.
http://docs.sandiego.gov/councilcomm_agendas_attach/2014/edir_140324_2c.pdf

³ San Diego County Taxpayers Association. “Minimum Wage and Poverty in San Diego”. 2014.
<http://www.sdcta.org/assets/files/Minimum%20Wage%20and%20Poverty%20in%20San%20Diego%20Executive%20Summary%206-5-14%20SK.pdf>

⁴ Attorney General of the State of California. “Title and Summary (15-0032)”. 2016.
<http://www.oag.ca.gov/system/files/initiatives/pdfs/Title%20and%20Summary%20%2815-0032%29.pdf?>



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in effect, this measure will increase the minimum wage to \$11 effective January 1, 2017, and then by \$1 every year thereafter until 2021 at which point the minimum wage will be readjusted annually based on the Consumer Price Index as a proxy for inflation.

Fiscal Impact:

Impact on Employment

The fiscal impact of this measure is difficult to estimate with reasonable accuracy as the effect of minimum wage increases can be highly variable. There exists a substantial amount of literature that supports the notion that minimum wage increases reduce overall employment by increasing costs to business owners such that they choose to take on fewer employees and potentially seek alternatives to hiring more employees such as automation. While some studies have resulted in neutral or slightly positive effects on employment, most influentially the 1994 study “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania” by Alan Krueger and David Card, a majority of studies find that increases to the minimum wage result in reduced employment. A 2008 meta-study of papers researching minimum wage increases performed by MIT economists David Neumark and William Wascher found:

“In our lengthier review of employment effects, we conclude that, overall, about two-thirds of the hundred or so studies that we discuss yield relatively consistent (although by no means always statistically significant) evidence of negative employment effects of minimum wages—while only eight give a relatively consistent indication of positive employment effects.”⁵

The exact elasticity of demand for labor⁶ in minimum wage markets is a point of considerable contention, and indeed likely varies depending on location and circumstance. There are few places in the country, such as Seattle and San Francisco, with a minimum wage higher than the one proposed by this ordinance, and these increases have been fairly recent, making their impacts hard to assess conclusively. Determining the net fiscal impact of the minimum wage increase would require an approximation of employment losses due to the minimum wage increase, balanced against wage increases amongst the rest of the population.

⁵ Neumark, David, and William L. Wascher. *Minimum Wages*. MIT Press, 2008. Web.

⁶ The change in demand for each marginal adjustment in price defined by the equation $E = (Q_1 - Q_0 / Q_1 + Q_0) / (P_1 - P_0 / P_1 + P_0)$ where Q_0 is equal to the quantity demanded at P_0 and Q_1 is equal to the quantity demanded at P_1 .



Other studies have noted some other positive effects that are correlated to minimum wage increases, such as increases in job stability.⁷ Increases in stability may be brought on by the increased ability of minimum wage earners to support themselves, reducing their likelihood to search for other employment. It may also be that minimum wage jobs become more intrinsically valuable due to increased competition resulting in the reduction in overall employment.

Impacts to Local Government

In terms of local government, the minimum wage increase will have the greatest effect on functions funded by sales taxes such as the City's general fund and SANDAG's sales tax funded projects. This effect too is indeterminate. Businesses will likely have to increase their prices on goods to pay for the increased cost of labor⁸. Elasticity again comes into play, because the net change in sales tax receipts will be dependent on the degree to which demand for goods is reduced by increases in price due to wage increases. This effect is balanced by the increased purchasing power of those minimum wage employees who benefit from this measure.

Minimum wage increases also seem to have a complex relationship with crime rates. For those whose wages are increased, there is a notable reduction in incidence of criminality. However, because minimum wage increases are often followed by reductions in overall employment, many studies have noted increased incidences of criminality following minimum wage increases.⁹ These increases in criminality seem to be brought on by labor market contractions brought on by minimum wage increases. Research suggests that as minimum wage workers are disenfranchised from the labor market, some turn to crime in order to cover their living expenses.¹⁰

Impacts to Local Businesses

In an independent survey of business owners employing a substantial amount of minimum wage workers in the City of San Diego in the restaurant, lodging, and in home care industries, the SDCTA found considerable concerns among local business owners over the recent increase of the city minimum wage from \$9 to \$10. Among those surveyed, the

⁷ Minimum Wage Shocks, Employment Flows and Labor Market Frictions." IRLE Working Paper No. 149-13. <http://irle.berkeley.edu/workingpapers/149-13.pdf> (2014)

⁸ Lemos, Sara, The Effect of the Minimum Wage on Prices (March 2004). IZA Discussion Paper No. 1072. Available at SSRN: <http://ssrn.com/abstract=524803>

⁹ Andrew Beauchamp and Stacey Chan. *The Minimum Wage and Crime*. Boston College. 2013. <https://www2.bc.edu/andrew-beauchamp/CrimeMW.pdf>

¹⁰ Hashimoto M. The minimum wage law and youth crimes: Time-series evidence. *Journal of Law and Economics*. 1987;30(2):443-64. Accessed on December 10, 2015. http://www.jstor.org/stable/725504?seq=1#page_scan_tab_contents



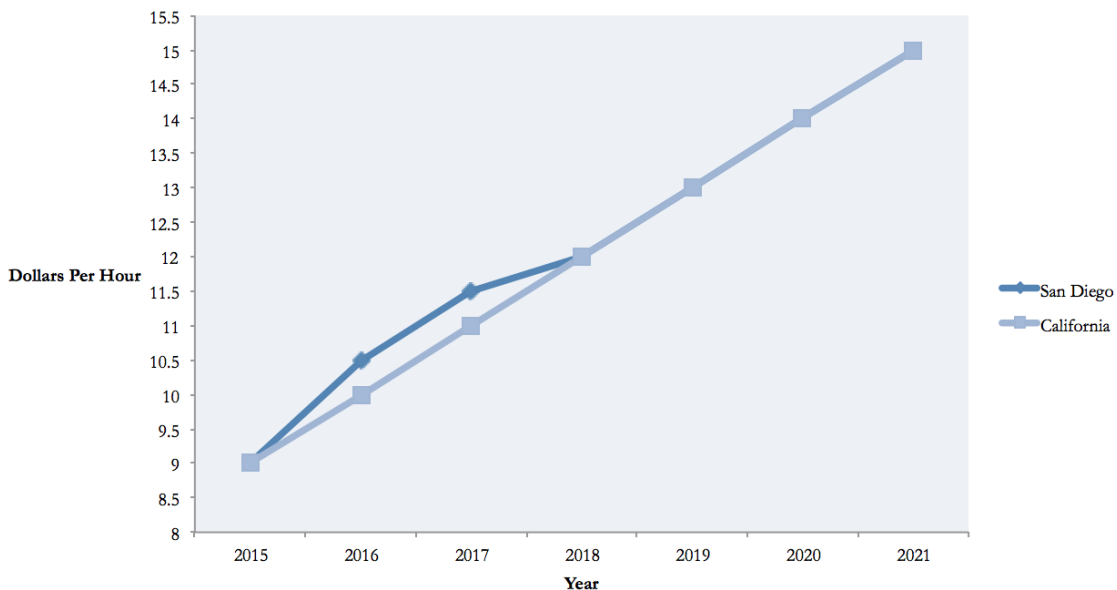
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SDCTA found that 46% anticipated reducing employee perks and 43% anticipated cutting employee hours. Of those surveyed, 30% planned to implement automation to replace jobs currently done by employees.¹¹

In addition, the City of San Diego’s minimum wage increase, if implemented, could reduce the competitiveness of businesses within the city versus regional competitors in the time between when the City of San Diego’s wage increase is implemented and when it meets and is superseded by the State of California’s minimum wage increase in 2018.

Minimum Hourly Wage in San Diego vs. the State of CA



Source: SDCTA

For a period of a year and a half in 2016 and 2017 employers within the city will be required to pay their employees 5% and 4.5% more respectively than other regional employers in the same industry. While this time period is not that long chronologically, a year and a half can be a long time for small businesses, which made up 94% of the businesses in the City of San Diego in 2012¹², and of which 1 in 3 fail financially within their first five years.¹³

¹¹ SDCTA *Business Impact Survey*. Release Pending

¹² Keegan Kyle. Voice of San Diego. “Fact Check: A City of Small Businesses. 2012.
<http://www.voiceofsandiego.org/all-narratives/fact/fact-check-a-city-of-small-businesses/>

¹³ Bureau of Labor Statistics. *Survival of Private Sector Establishments By Opening Year*. 2016
http://www.bls.gov/bdm/us_age_naics_00_table7.txt



The proposal also increases the number of sick days businesses are required to offer employees to five from the three that are currently mandated by state law under AB 1522. Research on the impacts of these increases are inconclusive. In surveys performed in San Francisco¹⁴ and Seattle¹⁵ researchers found that these increases were broadly supported by employers, boosted employee morale, and had relatively small impacts on business. Other research performed following Connecticut's enactment of a mandatory paid sick leave ordinance showed more negative results, with a majority of businesses suggesting that they had been forced to reduce hours and benefits and to reconsider hiring new employees.¹⁶ In either case, both positive and negative effects seem fairly modest. Paid sick leave ordinances have also been linked to reductions in "presenteeism" or showing up for work in reduced capacity in spite of being sick. These reductions may lead to marginal decreases in the incidence of infectious disease such as the flu.¹⁷

Summary of Policy Recommendations

The SDCTA opposes this ordinance because of its likely negative effect on employment while not sufficiently addressing the problem of poverty. The SDCTA also notes its potential negative impact on the competitiveness of businesses in the City of San Diego versus regional competitors in the short run. Based on our survey, raising the minimum wage is likely to reduce employment opportunities for those at the low end of the economy who need those jobs most. At the same time, the wage increase will likely increase the price of goods and services, an effect that will also be borne disproportionately by poorer San Diegans. A 2001 Stanford University study entitled "The Winners and Losers of Federal and State Minimum Wages"¹⁸ bears out this observation, finding that price increases brought on by minimum wage increases, much in the same manner as sales taxes, are regressive in character.

¹⁴ Carrie H. Colla, William H. Dow, Arindrajit Dube, and Vicky Lovell. Early Effects of the San Francisco Paid Sick Leave Policy. *American Journal of Public Health*: December 2014, Vol. 104, No. 12, pp. 2453-2460. doi: 10.2105/AJPH.2013.301575

¹⁵ Jennifer Romich with Wes Bignell, Tracy Brazg, Chantel Johnson, Cori Mar, Jennifer Morton, and Chiho Song. Implementation and Early Outcomes of the City of Seattle Paid Sick and Safe Time Ordinance. University of Washington. 2014. <http://www.seattle.gov/Documents/Departments/CityAuditor/auditreports/PSSTOUWReportwAppendices.pdf>

¹⁶ Michael Saltsman. "Paid Sick Leave in Connecticut: A Pilot Study of Businesses Responses to the Law". Employment Policies Institute. July, 2013 https://www.epionline.org/wp-content/uploads/2014/07/2013_EPI_PaidSickLeaveInConnv4.pdf

¹⁷ Stefan Pichler and Nicolas R. Ziebarth. "The Pros and Cons of Sick Pay Schemes: Testing for Contagious Presenteeism and Shirking Behavior". Cornell University. March 2016. <https://www.human.cornell.edu/pam/people/upload/2016-3-14-Pros-and-Cons-of-Sick-Pay-Schemes.pdf>

¹⁸ Thomas MaCurdy and Frank McIntyre. "Winners and Losers of State and Federal Minimum Wages". 2001. Employment Policies Institute. https://www.epionline.org/wp-content/studies/macurdy_06-2001.pdf



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Meanwhile, as pointed out in the SDCTA's 2014 minimum wage study as well as the aforementioned Stanford study, a substantial percentage of minimum wage earners do not live in households whose total income is below the poverty line. In 2014, a study by the National University System Institute for Policy Research found that among minimum wage workers, only 29% lived in households with a total income below the poverty line.¹⁹ The minimum wage is a blunt, inefficient means of tackling the problem of poverty. More direct methods, such as the federal and recently implemented state Earned Income Tax Credit, more efficiently combat the issue while avoiding employment effects brought on by minimum wage increases and the welfare trap inherent in many means-tested poverty programs.

SDCTA staff recognizes potential benefits to employees as well as for public health from the enactment of the sick leave increase included in the measure, but sees the evidence for these benefits as inconclusive, and likely outweighed by the negative impact on employment resulting from the minimum wage increases included in the initiative.

List of Proponents:

- Councilmember Todd Gloria
- Center on Policy Initiatives
- Irwin Jacobs, Chairman, QUALCOMM
- United Veterans Council San Diego

Proponent Arguments:

- Increasing the minimum wage will lift many San Diegans out of poverty and lead to a more equitable society

List of Opponents:

- San Diego Regional Chamber of Commerce
- California Restaurant Association

Opponent Arguments:

- Minimum wage increases do not effectively combat poverty

¹⁹ National University System Institute for Policy Research. "San Diego's Low Wage Workforce: A Complex Portrait." May 21, 2014.



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- Minimum wage increases increase the price of goods and services, which disproportionately affects the poor
- Minimum wage increases reduce overall employment