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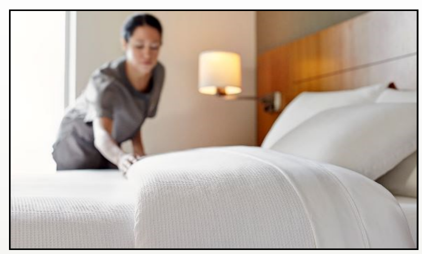
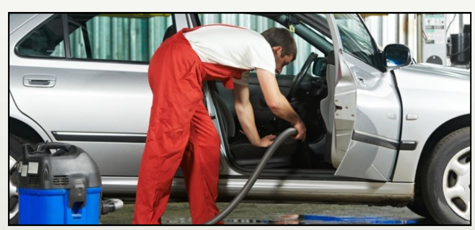
NAPA COUNTY

Considering a minimum wage policy





Staff Report/

Economic Study

April 5, 2016

Housing & Intergovernmental Affairs

Health & Human Services

Napa-Lake Workforce Investment Board

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EXECUTIVE SUMMARY

The Napa County Board of Supervisors on April 21, 2015, tasked County staff to research the local minimum wage ordinances that California jurisdictions have instituted over the past several years and return with data that could be used to formulate a Napa County minimum wage ordinance.

On October 6, 2015, staff presented the requested information to the Board in a public hearing. The Board then directed staff to further explore the issue and return with a more comprehensive minimum wage economic impact study. Staff secured the services of Dr. Robert Eyler, president of Economic Forensics & Analytics, to conduct the study. Dr. Eyler, a Ph.D. in economics, serves as a professor of economics at Sonoma State University.

This report begins with an overview of federal, state, and local minimum wage laws. It tells the recent history of the minimum wage in the United States and California. It explores how and why counties, cities, and towns contemplating a local minimum wage find themselves at the vanguard of a wave of local jurisdictions in California and throughout the country. These jurisdictions have determined that federal and state minimum wage laws are insufficient for their local economies and insufficient to pull their low-income workers out of poverty. The heart of this study is Dr. Eyler's minimum wage economic data that recommends a minimum wage rate schedule and shows the potential impacts to Napa County's unincorporated and incorporated areas of a minimum wage ordinance.

The main goal of a minimum wage is to preserve the purchasing power of workers' wages. In other words, the wages earned in a base year, when wages reflect worker productivity, should be able to buy the same or larger basket of goods and services in five, ten or more years hence, if productivity remains constant or increases.

The challenge with a state minimum wage, particularly in California, is that there are a number of micro-economies within the state. This means that the cost of living can differ significantly in certain areas versus others. The current state minimum wage of $10, for example, has more purchasing power in Del Norte County than in Napa County, where the cost of living is much higher. Conversely, if the state minimum wage were increased to $15, it would certainly benefit many workers, but it would likely be a heavier burden, percentage-wise, on rural business owners who tend to have a much smaller revenue base than metropolitan areas to absorb the increased labor costs.

A state minimum wage in a large and diverse area like California lacks the flexibility to protect the purchasing power of all workers. As a result, some workers in areas of high, increasing costs may find themselves slipping further into poverty. A local minimum wage ordinance seeks to even out workers' purchasing power—something that is difficult for a one-size-fits-all wage.

Napa County has an advantage over many jurisdictions because of its vibrant tourism industry. Visitors are more likely to absorb a price increase on goods and services if businesses, particularly food service and hospitality establishments, choose this method to compensate for paying a higher minimum wage.

When staff conducted outreach with stakeholder groups concerning a Napa County minimum wage, the following question was raised several times: "What is the problem Napa County is trying to solve?" Clarity on the answer, staff believes, would set a firm foundation for this study.

Staff believes there are three problem areas minimum wage ordinances are intended to address: social, poverty, economic. A short summary of these three problems is listed below. They are each explored in more detail in the body of this report.

Social:

Social issues include how well the market assigns wages and whether there is an inherent fairness to existing wages or whether a market failure exists that provides workers with unfair or sub-standard earnings. The main question this section explores is: Should a person who works 40 hours or more per week in one or more jobs still be poor enough to qualify for public assistance?

Poverty:

Low wages that do not keep pace with the cost of living in a particular area have been shown to have a deleterious impact on physical health, mental health, education, and other important areas. This section takes a look at Napa County poverty statistics and what families face with the local economy's high cost of living.

Economic:

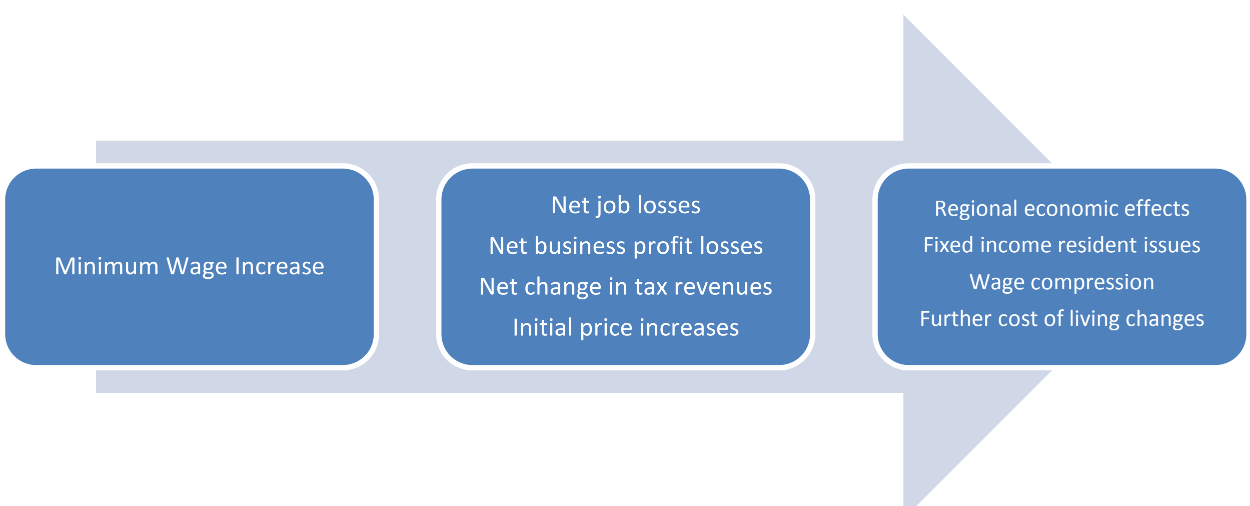
Economic data pertinent to Napa County are the central component of this report. Wages have not kept pace with inflation. Low-income earners' purchasing power has eroded precipitously over the past 30 years. A number of businesses that employ low-wage earners have encouraged and even coached their workers to apply for public assistance. The result has been a de facto taxpayer subsidization of these businesses. There are, however, a many factors to consider in instituting a local minimum wage ordinance.   A minimum wage redistributes income from businesses that utilize low-wage workers to these workers more directly, increasing the costs of doing business rather than redistribute tax dollars to social assistance programs for current workers.

What Is A Minimum Wage Intended to Do?

A gradual change in the minimum wage, if there is any change made, is the recommended practice. San Francisco's ordinance is a good regional example of a graduated minimum wage schedule. The estimated changes considered in this study would aim to move Napa County's minimum wage from $10 per hour to $15 per hour. Minimum wage increases are meant to do many things for a municipality:

- Reduce poverty levels;
- Improve the quality of life by maintaining or increasing workers' purchasing power;
- Provide support for local businesses by injecting more revenue into the local economy;
- Increase worker morale and productivity;
- Reduce the effects of market forces to drive wages lower.

However, there are negative impacts in addition to positive impacts. The figure below depicts what can happen when the minimum wage is increased.



The potential gains of a Napa County minimum wage ordinance increase when the workers receiving the increased wage also live in Napa County and the wages are kept within the County's economic boundaries. This offsets employers' inclination to pay for increased wages by laying off workers, cutting down hours, or suspending the hiring of new employees.

The U.S. Census data shows that most residents in the County's *unincorporated* area also work locally. In Napa County's *incorporated* areas, however, a larger proportion of workers are inbound commuters filling local jobs.

While this report shows small job and income gains in net, they could turn into small net losses if businesses are more sensitive to higher wages by as little as three percentage points (each percent increase in the wage leads to an additional three percentage points of workers at that wage no longer working or hired).

Further, local workers relying on social services, such as governmental assistance programs, public health centers, and rental assistance may see a loss of benefits if wages rise too quickly versus the federal poverty line.

The increase in business costs includes the new payroll wages, more payroll taxes, worker's compensation insurance, and new compliance costs. Napa County's economy generated over $8.8 billion of business revenue in 2014.[1] The new wage costs are relatively small overall, but climb with faster-growing wages and affect local businesses directly. The major business types affected with low-wage workers are concentrated in five main industries:

- Building and Grounds Cleaning and Maintenance;
- Farming, Fishing, and Forestry;
- Food Preparation and Serving-Related (Bars and Restaurants);
- Hospitality;
- Transportation and Material Moving.

Broader Impacts to Consider

Broader regional and macroeconomic forces also affect Napa County's economy. The cost of doing business and also living in Napa County rises as wages rise. With increasing minimum wages, the local government assumes that the rising costs of doing business will be offset by more business revenue that cover increased payroll levels and related costs, at least in part. Increasing prices may

[1] See Bureau of Economic Analysis for the Napa metropolitan statistical area (basically Napa County) estimate of grows product at http://www.bea.gov/regional/index.htm.

be part of a strategy to raise revenue. In an economy where visitors are an important source of business revenue, increasing prices may be considered an attractive strategy to deal with new business costs. Local residents will also carry some of that strategy's burden.

It is important to recognize that a slowdown in the local or national economy will make it more difficult for local businesses to "price" their way out of additional costs, regardless of the local or national economy. Businesses unable to increase revenue will see profits erode, and some businesses may fail. This study predicts no business losses in the short term. But it does predict business profitability will fall under the assumption that all businesses affected will not be able to generate new revenue enough to cover the new costs. The data do not easily allow ways to estimate which businesses will survive or fail. It is logical, however, that some businesses will be able to absorb the new costs and shift some burden to their customers versus others that may struggle to do so.

A higher cost of living spurred by higher wages may also affect Napa County residents on fixed incomes (such as seniors on pensions or Social Security or residents on governmental assistance programs). The balancing act for local policy makers is between creating more purchasing power for local (not commuting) workers and the resultant, rising prices undermining real and net gains from higher minimum wages.

Napa County Is No Exception

Approximately 50 percent of employees at Napa County's businesses (incorporated and unincorporated) live outside the County. The unincorporated portion of Napa County has approximately 81 percent of its workers who live locally, which may be a good place to experiment with an increase in the minimum wage initially. However, the price and wage effects of that change will not be constrained to unincorporated Napa County, but will also affect all of Napa County's cities and town over time. The County of Napa is redistributing business revenue to workers now earning a new minimum wage, including workers that do not live in Napa County at all. Areas where Napa's commuting workers live will receive more demand and more business revenues initially, while inside of Napa County, businesses and residents otherwise will lose.

In summary, increasing the minimum wage in Napa County has confounding effects on different parts of the economy. The following table summarizes the estimated gains and losses in this study under the stated assumptions.

Effect of Change	Positive or Negative
Lost Jobs	-
Gained local spending	+
Supported Jobs due to increased local spending	+
Lost business profits	-
Increased local prices	-
Number of people on fixed incomes affected	-
Net Effects to major Groups in Unincorporated Napa	
Businesses	-
Working Residents that receive new min wage	+
Workers that live elsewhere and receive new min wage	+
Tourists	-
Residents not receiving new minimum wage	-

Wage Schedule Scenarios

Dr. Eyler cites three wage schedule scenarios for the Board of Supervisors to consider:

- **Scenario 1**: Phase in at 5 percent increase per year;
- **Scenario 2**: Raise to $11 in 2017, $12 in 2018, and 5 percent until wage is $15, approximately 2023; or
- **Scenario 3**: Raise to $12 in 2017, then 5 percent per year until $15, approximately 2022.

Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	$10.00	$10.50	$11.03	$11.58	$12.16	$12.76	$13.40	$14.07	$14.77
2	$10.00	$11.00	$12.00	$12.60	$13.23	$13.89	$14.59	$15.00	CPI
3	$10.00	$12.00	$12.60	$13.23	$13.89	$14.59	$15.00	CPI	CPI

Note: "CPI" suggests that after the minimum wage reached $15, changes in the CPI would dictate continued increases in the minimum wage

Based on the study and the experience of other jurisdictions, Dr. Eyler recommends Scenario 1 that increases the minimum wage 5 percent per year to 2024, then ties to the CPI thereafter. The wage level compounds quickly, and outpaces the estimated cost of living increases to provide predictability and balance with purchasing power gains between 2016 and 2024. Wages "moving faster" means more costs for local businesses and perhaps more gains for local workers depending on commuting patterns for low-wage workers and business reactions to rising wages in terms of retention and hiring. The idea is to balance between the cost shock to local businesses and residents and increasing lower wage worker incomes. Scenario 1 is thus recommended over Scenarios 2 and 3 because of a more gradual path.

Staff Conclusion

Homebuyers and renters pay top prices in this popular area that is a destination for millions of tourists each year. Currently, the state minimum wage seems insufficient to help Napa County families pull out of poverty's grip. After consulting with minimum wage experts and contracting with Dr. Eyler for an economic study, staff believes the Napa County economy could accommodate Dr. Eyler's Scenario 1, but also Scenario 2, which would reach a minimum wage of $15 in 2023. Staff believes this approach would better ease low-income residents out of poverty and cause minimum disruption to local businesses. Staff also believes a minimum wage ordinance is a major component of reducing poverty, but should be complemented by other programs, such as affordable housing, public transportation, and job training and job creating, in a unified strategy.

INTRODUCTION

Minimum Wage Draft Ordinance

On March 23, 2015, at the request of District 5 Supervisor Keith Caldwell, the Board's Legislative Subcommittee voted in favor of sending Senate Bill (SB) 3 (Leno), a measure to raise the state minimum wage to $13 by 2017, to the full Board.

On April 14, 2015, the Board of Supervisors voted to support SB 3. Supervisor Caldwell then asked staff to explore a Napa County wage ordinance. One week later, the Board formally tasked staff to research the local minimum wage ordinances that California jurisdictions have adopted over the past several years and return with data that could be used to formulate a Napa County minimum wage ordinance.

Staff from the County's Housing & Intergovernmental Affairs Division, County Counsel, Health & Human Services, and the Napa-Lake Workforce Investment Board worked together to study the issue.

On October 6, 2015, staff presented the requested information to the Board in a public hearing. The Board then directed staff to further explore the issue and return with a more comprehensive minimum wage economic impact study. Staff secured the services of Dr. Robert Eyler, president of Economic Forensics & Analytics, to conduct the study. Dr. Eyler, a Ph.D. in economics, is a professor of economics at Sonoma State University. He is a respected lecturer and consultant, who has conducted many economic studies specific to the North Bay area.

In preparing this document, staff met with the following stakeholders: Napa Valley Vintners, Napa Valley Grapegrowers, Progressive Women of Napa Valley, Napa Chamber of Commerce, Napa Downtown Association, Napa Valley Tourism Improvement District, Napa-Lake Workforce Investment Board Executive Committee, and the Napa Valley Coalition of Nonprofit Agencies and its Subcommittee on Economic Self-Sufficiency.

Staff also contacted the following local governments, groups, and experts for input: California Labor Commission (state agency in charge of minimum wage laws), all 11 California jurisdictions that have passed a minimum wage; California Chamber of Commerce, California Restaurant Association, Ken Jacobs, chair of U.C. Berkeley's Center for Labor Research and Education; and Marty Bennett of North Bay Jobs With Justice.

A survey seeking input on minimum wage issues was sent to the following groups: Napa Valley Vintners, Napa Valley Grapegrowers, Napa County Farm Bureau, Napa Valley Coalition of Nonprofit Agencies, Napa Chamber of Commerce, Calistoga Chamber of Commerce, Visit Napa

Valley, American Canyon Chamber of Commerce, Yountville Chamber of Commerce, St. Helena Chamber of Commerce, and the Napa Downtown Association. The results were presented at the October 6, 2015, Board of Supervisors meeting.

Minimum Wage, Living Wage, or Prevailing Wage?

The public often uses one of three terms when discussing wage laws or ordinances: minimum wage, living wage, and prevailing wage. These terms are sometimes used interchangeably. However, the general use definitions are as follows:[1]

Minimum Wage - The lowest allowable rate of pay at which an employee may sell their work and an employer may purchase their work. In Napa County, the minimum wage is the current state minimum wage of $10. The State rate increased from $9 to $10 on January 1, 2016.

Living Wage - The lowest wage at which subsistence needs can be met by a full-time employee. According to the Department of Urban Studies and Planning at the Massachusetts Institute of Technology (MIT), Napa County's living wage is: $12.09 for a single adult; $29.39 for a single parent with two children; $26.76 for a two-parent family (one working) with two children; $16.07 for a two-parent family (both working) with two children.[2]

Prevailing Wage - The rate of pay that contractors and vendors must offer their employees when doing business with a government agency. Napa County follows the state prevailing wage law on construction contracts. The County's rate for a drywall installer, for example, is $68.95 per hour, including benefits.[3]

What is the problem a minimum wage ordinance is trying to solve?

When staff conducted outreach with stakeholder groups concerning a Napa County minimum wage, the following question was raised several times: "What is the problem Napa County is trying to solve?" Clarity on the answer, staff believed, would set a firm foundation for this study.

Staff believes there are three problems minimum wage ordinances are intended to solve:

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[1] Sources: The Economist, Investopedia, govdocs.com.
[2] MIT Living Wage Calculator for Napa County: http://livingwage.mit.edu/counties/06055.
[3] California Department of Industrial Relations, pursuant to California Labor Code Part 7, Chapter 1, Article 2, Sections 1770, 1773 and 1773.1.

1. **Social** – Should a person who works 40 hours or more per week in one or more jobs still be poor enough to qualify for public assistance?

2. **Poverty** – Lifting people out of poverty wages has shown to alleviate a myriad of problems, including: health, domestic violence, access to education, qualification for and access to better jobs.

3. **Economic** – Wages have not kept pace with inflation. Low-income earners' purchasing power has eroded precipitously over the past 30 years. Many businesses that employ low-wage earners have encouraged and even coached their workers to apply for public assistance. The result has been a de facto taxpayer subsidization of these businesses.

These three problems are explored in more detail in the body of this report.

Is a local minimum wage the answer to these problems?

Staff believes a comprehensive approach with a local minimum wage as the cornerstone is the best way to address these problems. This approach will necessitate the coordination of a local minimum wage ordinance with a constellation of programs to bolster low-paid workers' earning potential and quality of life. These programs include:

- State earned income tax credit
- Child tax credit
- Paid parental leave
- Job training and job creation
- Early childhood education
- Affordable housing
- Public transportation

FEDERAL, STATE, & CALIFORNIA MINIMUM WAGE LAWS

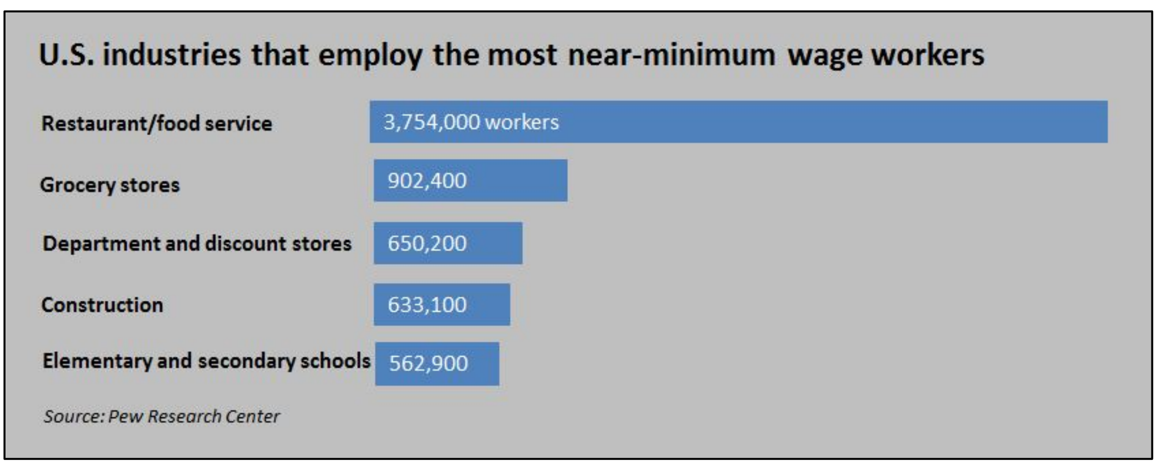
Federal

The Fair Labor Standards Act of 1938 introduced the 40-hour work week, established a national minimum wage, guaranteed "time-and-a-half" for overtime in certain jobs, and prohibited oppressive child labor.

In 1938, the federal minimum wage was set at $0.25 per hour and covered about 20 percent of the labor force. Since then, it has been adjusted 22 times—most recently in 2009 at $7.25 per hour. The federal minimum wage today covers 3.9 percent of all wage and salary workers, or three million workers.[1] This figure does not include workers, like those in Napa County, earning a state or local minimum wage that is higher than the federal minimum wage.

In 1968, the federal minimum wage was raised to $1.60. It was at this point that the minimum wage reached its height in purchasing power for the basket of goods it could buy in the economy.[2] This wage, adjusted for inflation, equals $10.90 in 2016 dollars.[3]

According to a 2015 Pew Research Center study, the vast majority of minimum wage workers in the United States are employed in the restaurant and food service industry (please see chart below). The study tracked "near-minimum wage workers," who are at least 18 years of age and earn less than $10.10 per hour.

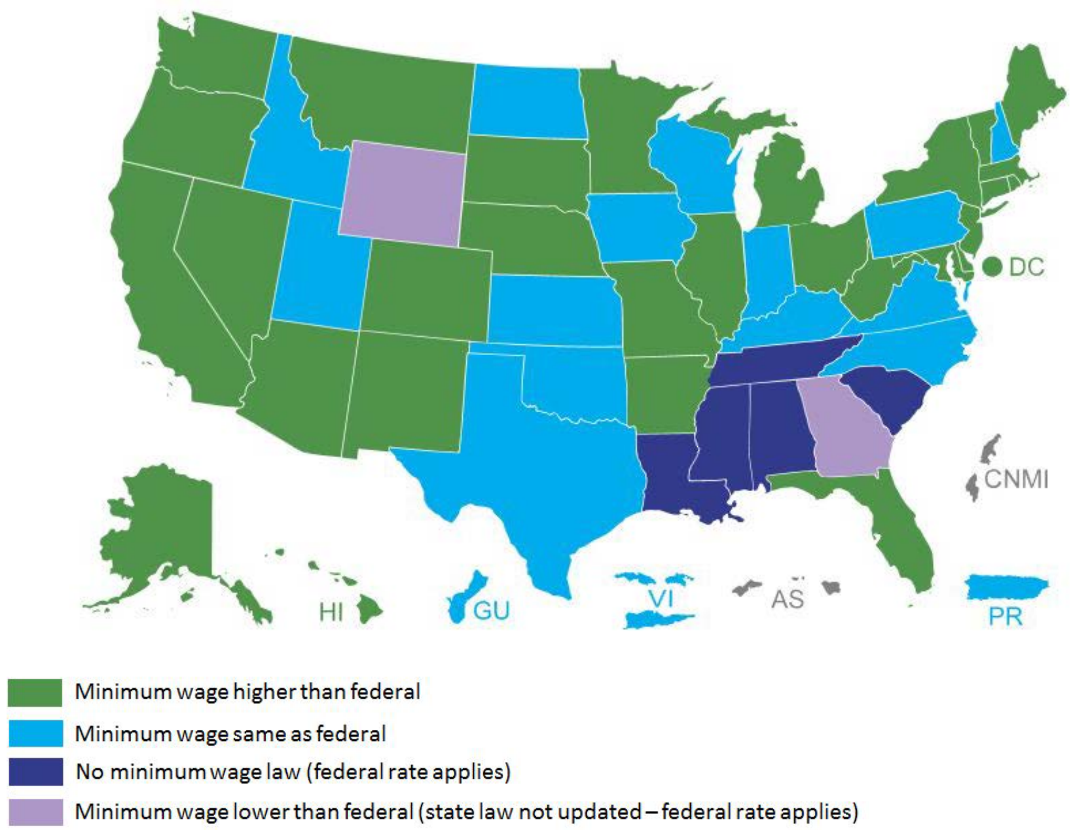


[1] Characteristics of Minimum Wage Workers, U.S. Bureau of Labor Statistics: http://www.bls.gov/opub/reports/cps/characteristics-of-minimum-wage-workers-2014.pdf
[2] Five Facts About the Minimum Wage, Pew Research Center, July 23, 2015.
[3] CPI Inflation Calculator, Bureau of Labor Statistics: http://data.bls.gov/cgi-bin/cpicalc.pl?cost1=1.60&year1=1968&year2=2015

Restaurateurs and other food service business are often the strongest opponents of minimum wage increases. All California jurisdictions that have passed minimum wage ordinances faced strong opposition from this industry. Further, County staff encountered this opposition as well when conducting outreach for a possible Napa County minimum wage ordinance.

State

The federal minimum wage has never been tied to the rate of inflation. It is increased sporadically when Congress has the will to raise it. This lag causes the buying power of the federal minimum wage to erode, causing many low-income citizens to sink further into poverty. It took Congress, for example, 10 years to pass a $0.75 increase in 2007, which brought the wage to $5.85. In the absence of congressional action, the states have stepped in to institute their own minimum wages above the federal level. As of January 1, 2016, 29 states have adopted such laws.[4]



Source: U.S. Department of Labor

[4] U.S. Department of Labor, Minimum Wage Laws in the United States: http://www.dol.gov/whd/minwage/america.htm.

California

Before the first national minimum wage was adopted in 1938, California joined 15 states, the District of Columbia, and Puerto Rico in adopting minimum wage laws. The measures were intended to protect women and child workers who often toiled in factories and other workplaces that were considered unclean and unsafe compared to those of adult male workers.

In 1912, Massachusetts became the first state to adopt a minimum wage law. The report that precipitated the law reflected the sentiment of many seeking minimum wage laws today. It stated: "Whenever wages are less than the cost of living and the reasonable provision for maintaining the worker in health, the industry employing her is in receipt of the working energy of a human being at less than its cost, and to that extent is parasitic."[5]

In 1913, California adopted its first minimum wage law, which initially focused on women working in canneries. Three years later, the wage went into effect at $0.16 per hour for an experienced worker and $0.13 for an inexperienced worker.[6] The law set up the California Industrial Welfare Commission to oversee and administer the wage law.

Enforcement of the minimum wage was an issue then, as it is today. Most wage commissions at the time had no policing authority. They mostly relied on public opinion, or what we might today call "wage-shaming." The commissions were authorized to publicize the names of the businesses to make the public aware of those who were flouting the commissions' wage increases.

On April 9, 1923, the U.S. Supreme Court suspended all state wage laws. The Court ruled in *Adkins v. Children's Hospital* that all state minimum wages violated the due process clause of the Constitution's Fifth Amendment. The Court, 14 years later, reversed itself in *West Coast Hotel Co. v. Parrish*, ruling that minimum wage laws *were* constitutional. The following year, Congress passed the Fair Labor Standards Act of 1938 and instituted the first national minimum wage.

In 1943, California, free from the Supreme Court's prior ruling, instituted its first minimum wage increase since 1920. The wage increased to $0.45 per hour–$0.15 above the federal minimum wage at the time. From this point on, California has consistently adopted an increased rate when the purchasing power of the federal minimum wage has lagged.

California last passed a minimum wage increase in 2013. The law, AB 10, set the wage at $9 on July 1, 2014, and $10 on January 1, 2016. The increase is not pegged to inflation in subsequent years.

[5] Report of the Commission on Wage Boards, Commonwealth of Massachusetts, January 1912.
[6] The Effects of the Legal Minimum Wage for Women, A.N. Holcombe, Annals of the American Academy of Political and Social Science. Vol. 29, 1917.

Since 2013, there has been a frenzy of activity on the state and local level concerning minimum wage increases. Just one week ago, a major breakthrough occurred.

On March 28, 2016, Governor Brown announced his support for an amended version of SB 3 that would gradually raise the state's minimum wage to $15. The governor worked with legislators and labor leaders to reach the agreement. As amended, SB 3 raises the minimum wage to $10.50 on January 1, 2017, and increases it by $1 every year until reaching $15 in 2022. The same rate schedule applies to small businesses with fewer than 25 workers, but is delayed one year, so the top rate of $15 will be reached in 2023. After reaching $15, the minimum wage will be adjusted annually for inflation.

This recent development created uncertainty for two fall ballot initiatives seeking to raise the minimum wage to $15. The initiative, authored by the Service Employees International Union-United Healthcare Workers West, raises the state's current $10 minimum wage by $1 every year for five years until it reaches $15 on January 1, 2021. It will be tied to inflation thereafter. This initiative has qualified for the November 8, 2016, election. The State Council of the Service Employees International Union is currently gathering signatures for its minimum wage ballot initiative. It includes an identical wage schedule as the already-qualified initiative, but also requires employers to provide three new sick days per year.

Despite these recent events in Sacramento, Napa County staff believes that that it is appropriate for the Board of Supervisors to consider its own ordinance in case the statewide compromise should falter through the approval process or is amended and does not reflect the particular circumstances Napa County seeks to address concerning a local minimum wage.

Local jurisdictions in California

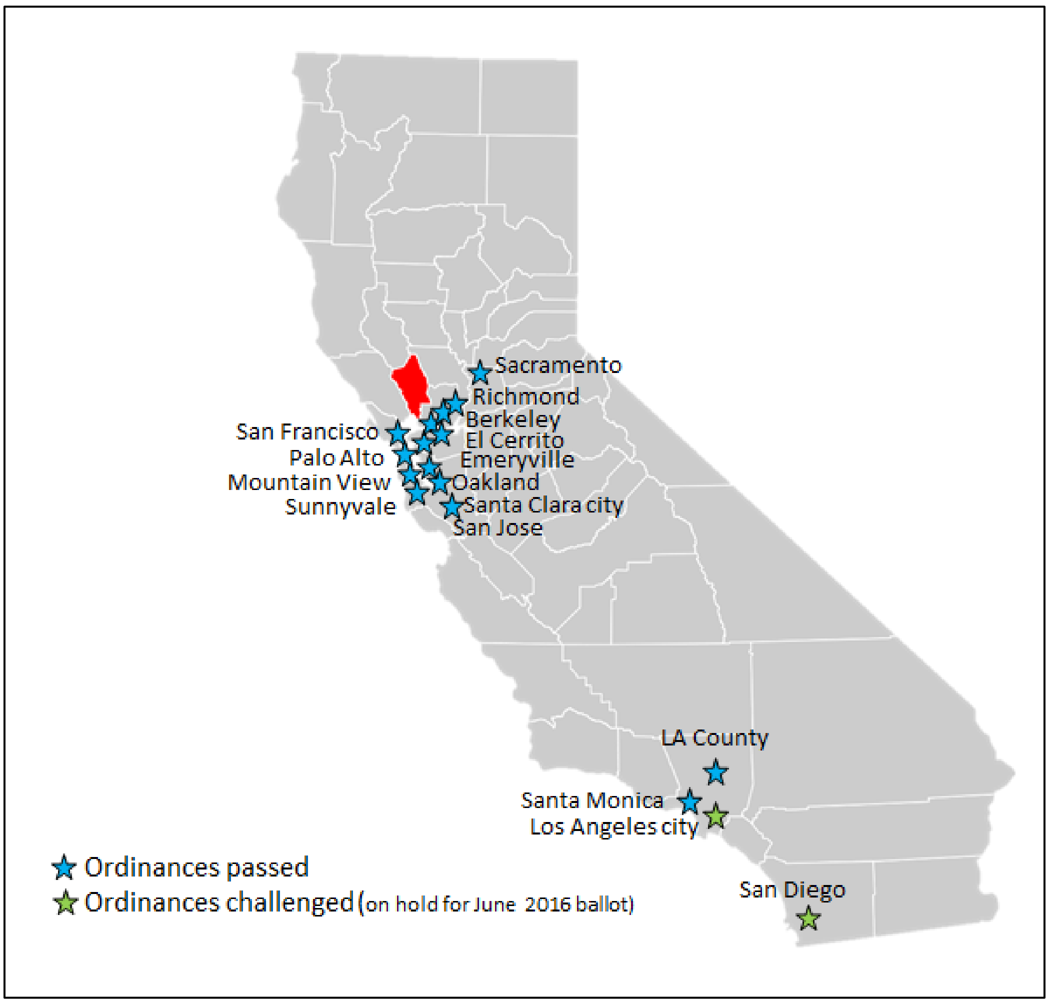
Just as California instituted its own minimum wage in response to the sporadic increases of the federal minimum wage, local jurisdictions have adopted ordinances that set the wage above the state's floor.

These local ordinances usually address certain economic and cost-of-living characteristics of the area, such housing, food, transportation, and other expenditures that may be quite higher than in other parts of the state. In other words, the current state minimum wage of $10 will have more value in Siskiyou County than in Napa County, where home ownership and rental housing costs are among the highest in the state.

Jurisdiction	Median home price
San Francisco	$896,740
Napa County	$528,410
Los Angeles County	$405,260
Siskiyou County	$166,670
Del Norte County	$135,000

Source: California Association of Realtors, November 2013

The map below shows the current local minimum wage ordinances in California. Most have been instituted in the past year, so there is scant historical data to analyze. There are more jurisdictions that are considering instituting wage ordinances as well.



Looking at the map, it's clear that local ordinances thus far are centered in and around the state's urban areas. There are several regional efforts under way to establish a uniform minimum wage and avoid a mish-mash of ordinances that may be confusing and difficult to enforce. Labor groups have been working with Bay Area jurisdictions to pass a region-wide $15 minimum wage, and with South Bay jurisdictions to pass a $10.30 wage floor, with an eye towards increasing it to $15 in the near future. All ordinances, except Oakland, have also pegged their highest and last increase to inflation to prevent minimum wage erosion in subsequent years.

SOCIAL ISSUES, INCOME INEQUALITY, & VALUE OF WORK

Social issues

Should a person who works 40 hours or more per week in one or more jobs still be poor enough to qualify for public assistance?

It is a question frequently asked by supporters of minimum wage laws. But it raises other questions as well: Is the worker single and only supporting themselves? If a parent, how many children does the worker support? Is the parent the only worker in the household? What is the wage that would be sufficient so a worker would *not* qualify for public assistance?

The Department of Urban Studies and Planning at the Massachusetts Institute of Technology (MIT) publishes a living wage calculator, last updated in August 2015 that seeks to answer these questions. The MIT department is a leading source of labor and wage data in the United States.

The MIT calculator includes costs in addition to the basic food needs cited by the federal poverty threshold to realistically measure a reasonable standard of living. It measures the costs of housing, medical care, child care, transportation, and income taxes. Most importantly, the MIT calculator uses individual data from each county in America and has estimated a dollar amount for each county's living wage cost component.

Below is the MIT calculator's living wage data estimated for a single worker and single parent worker in Napa County. The federal poverty level, measured in yearly income, has been converted to an hourly wage and included here as a reference point.

NAPA COUNTY WAGES - One Worker Household (MIT calculator)				
Hourly wages	**1 adult**	**1 adult/1 child**	**1 adult/2 children**	**1 adult/3 children**
Living wage	$12.09	$25.82	$29.39	$37.49
State min wage	$10.00	$10.00	$10.00	$10.00
Poverty wage	$5.00	$7.00	$9.00	$11.00

The Board's direction to staff in April 2015 was to explore a living *or* minimum wage for unincorporated Napa County. As staff researched this issue, it became clear that the Board's intent was to consider a minimum wage—a single wage floor for the lowest paid workers. Instituting a living wage would encompass paying up to 12 different wage amounts for the same job. It would include the four different wages above and eight different wages for different living configurations of two parents and one or more children. The highest of these wages would be $37.49 per hour.

As stated in this study's Introduction, the terms "minimum wage" and "living wage" are commonly used interchangeably. Staff believes the MIT living wage for a single adult with no children is consistent with the Board's intent of a minimum wage that would take into account the unique costs of living in Napa County. It is both a living wage and a minimum wage for a single individual. Further, all local California jurisdictions that have passed a wage increase have implemented a minimum wage and not a multi-level living wage.

Staff believes the single adult model with no children is the most reasonably applicable wage for Napa County. It also factors in costs not generally included in a minimum wage.

The MIT data below summarizes the Napa County living wage cost components for a single adult with no children:

NAPA COUNTY - Living wage (MIT calculator)	
Annual expenses	**1 single adult**
Food	$3,607.00
Child care	$0.00
Medical	$2,099.00
Housing	$10,116
Transportation	$4,054
Other	$2,284
Annual taxes	$2,996
Total income	**$25,156**

Dividing the total income of $25,156 by 2,080 hours of a yearly full-time job equals MIT's $12.09 per hour living wage for a single, non-parent individual working in Napa County. Viewed another way, $12.09 is estimated to be the hourly wage a single, non-parent individual working 40 hours per week, 2,080 hours per year in Napa County would have to make without need of public assistance.

According to MIT economists, the MIT living wage model is a "step up" from poverty as measured by the federal poverty thresholds. But it is a small "step up," and one that accounts for only the basic needs of a family. The MIT living wage model does not allow for what many consider the basic necessities enjoyed by many Americans. It does not budget funds for pre-prepared meals or those eaten in restaurants. It does not include money for entertainment nor allocate leisure time for unpaid vacations or holidays. Lastly, it does not provide a financial means for planning for the future through savings and investment or for the purchase of capital assets (e.g. provisions for retirement or home purchases). The living wage is the minimum income standard that, if met, draws a very fine line between the financial independence of the working poor and the need to seek out public assistance or suffer consistent and severe housing and food insecurity. In light of this fact, the living wage is perhaps better defined as a minimum subsistence wage for persons living in the United States.

Income inequality

Historically, the main goal of a minimum wage or wage floor is to preserve the purchasing power of wages as reflected in the productivity of economic output.

In other words, the wages earned in a base year when wages equal productivity should be able to buy the same basket of goods and services in five, ten or more years hence—or more, if productivity is maintained or increases. Productivity is commonly defined as the ratio between the volume of goods and services produced and the volume of inputs, such as capital and labor, used to produce these goods and services.[1]

From the end of World War II to 1973, the hourly compensation of a typical worker essentially grew in tandem with productivity.

Net productivity, an economic measure of output per unit of input, grew 72.2 percent between 1973 and 2014. In other words, more was being produced with roughly the same number of labor units. Yet inflation-adjusted hourly compensation of the median worker rose just 8.7 percent, or 0.20 percent annually, over this same period, with essentially all of the growth occurring between 1995 and 2002.[2]

Another measure of worker pay is real hourly compensation of production. This measure for non-supervisory, non-managerial workers, who make up 80 percent of the workforce, also shows pay stagnation for most of the period since 1973, rising 9.2 percent between 1973 and 2014. Again, the lion's share of this growth occurred between 1995 and 2002.[3]

Economists cite 1968 as the zenith year when the purchasing power of wages equaled U.S. productivity. As the 1980s began, productivity steadily increased, but wages remained stagnant. This trend continues today.

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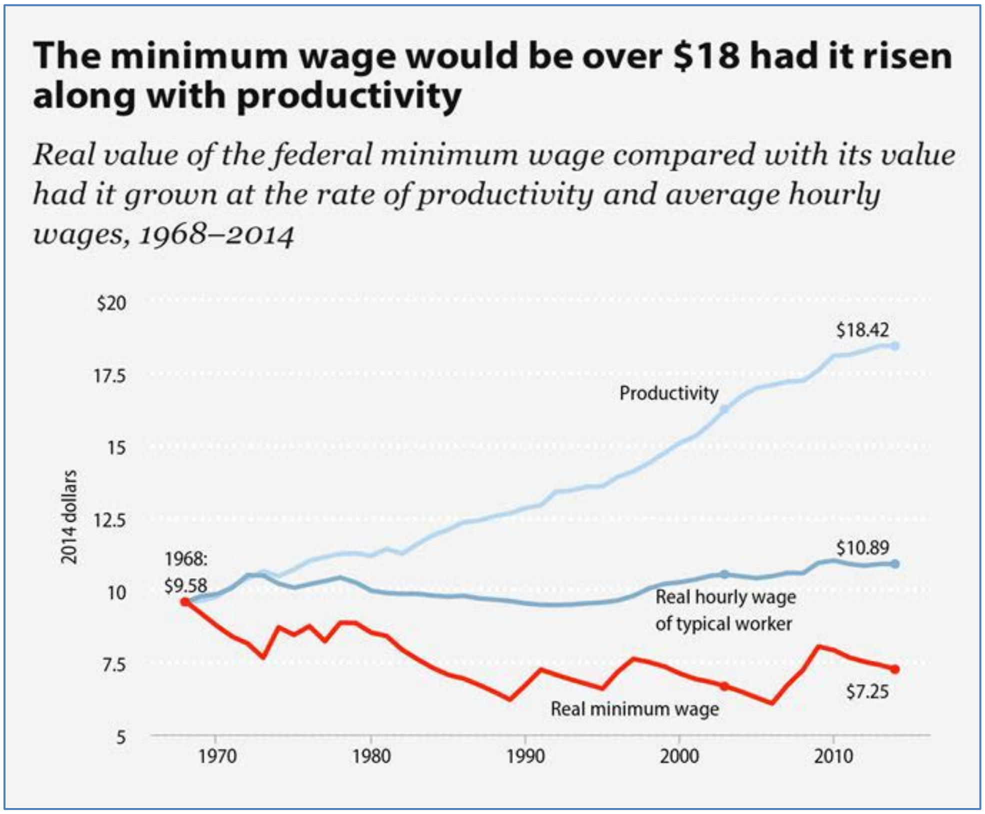
[1] Organization for Economic Cooperation and Development: https://data.oecd.org/lprdty/gdp-per-hour-worked.htm

[2] Understanding the Historic Divergence Between Productivity and A Typical Worker's Pay, Josh Bivens and Lawrence Mishel, Economic Policy Institute Report, September 2, 2015.

[3] Ibid.

According the Economic Policy Institute, a Washington, D.C. think tank that studies labor and wage issues, if purchasing power had remained the same as 1968, the minimum wage today would be more than $18:

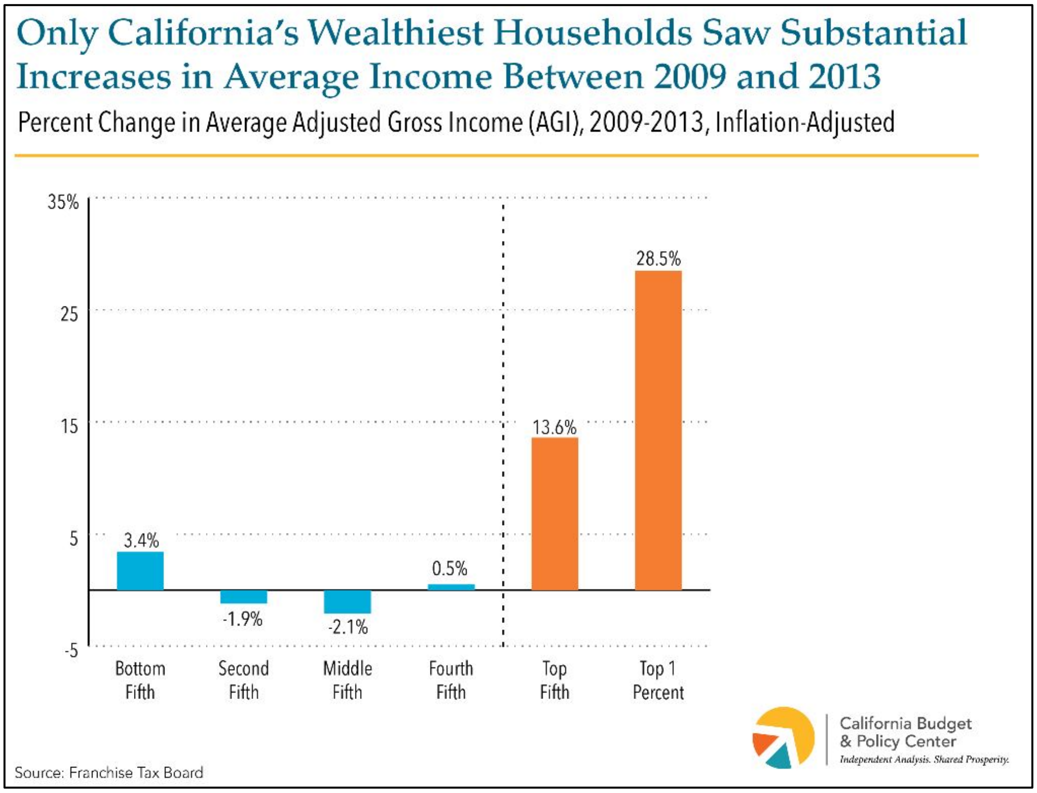


In California, as in the rest of America, the wage gap continues to grow.

According to the California Budget Project, the average inflation-adjusted incomes from 1973 to 2009 for the top five percent of the state's families increased by more than 78.3 percent, or five times faster than the percentage gain of 16.3 percent for families in the middle fifth.

During this period incomes for the poorest fifth of the state's families fell by five percent, and for the second poorest fifth, incomes increased by only 5.6 percent.

Most American families suffered job and wage loss during the Great Recession that began in 2008. But even in dire economic times, the households with income in the top fifth tier and particularly those in the top 1 percent tier, saw their wealth increase:



In addition to wage erosion, Napa County's low-income workers must also face some of the highest housing costs in California. While the median price of a home in Napa County rose 20.9 percent to $478,000 from 2013 to 2014,[4] rental rates increased as well.

According to the real estate service Real Facts, rental prices in Napa County increased 13.5 percent in the second quarter of the year compared with the same period in 2014.[5] The average rental in Napa is currently $1,771—a 14 percent increase from last year's average of $1,560.

Napa, while not as expensive as San Francisco or Marin County, is nevertheless at the high end of rental prices compared with the rest of the U.S.

The U.S. Bureau of Economic Analysis measures prices throughout the United States in comparison with the national average. Below is a chart of the Regional Price Parities taken from the Bureau's website. The national average is set at 100 for comparison purposes. Napa County is within the San Francisco-Oakland-Hayward Metropolitan Statistical Area (MSA). According to the data, Napa is in an MSA where rental prices are 81.9 percent higher than the national average.

[4] "Napa County Median Home Price Rises, Sales Decline," Jennifer Huffman, *Napa Valley Register*, May 5, 2014.
[5] "Napa Rental Rates Soar," Jennifer Huffman, *Napa Valley Register*, August 1, 2015.

RPP1 Regional Price Parities

Metropolitan Statistical Area

MODIFY CHART

GeoFips	GeoName	LineCode	Description	2013
41860	San Francisco-Oakland-Hayward, CA (Metropolitan Statistical Area)	1	RPPs: All items	120.3
41860	San Francisco-Oakland-Hayward, CA (Metropolitan Statistical Area)	2	RPPs: Goods	107.9
41860	San Francisco-Oakland-Hayward, CA (Metropolitan Statistical Area)	3	RPPs: Services: Rents	181.9
41860	San Francisco-Oakland-Hayward, CA (Metropolitan Statistical Area)	4	RPPs: Services: Other	108.7

Legend/Footnotes

Last updated: July 1, 2015.

Stagnant wages and high housing costs in Napa County are two major causes that continue to hinder low-income workers from keeping their heads above water.

Value of Work

In stakeholder meetings conducted this summer, staff encountered a number of individuals who were skeptical that a Napa County minimum wage would have much effect on a low-income worker. A common question was: How could giving someone a $1 or $2 raise lift them out of poverty or allow them to afford better housing?

There is obviously some truth to this statement. If we refer to the MIT calculator, a single parent supporting three children would not be lifted out of poverty with a $1 or $2 wage increase. A single worker with no children to support, however, *would* be lifted out of poverty in Napa County with a $2 hourly wage increase.

But would this single worker be able to afford better housing with a $2 hourly increase?

That is more difficult to answer, because it would depend on the living circumstances the individual worker is seeking. Are they seeking a room, studio apartment, cottage, or house as sufficient housing?

Another way to look at the value of a minimum wage or the value of work, is to view a minimum wage increase in context.

To a person making $100,000 per year in Napa County, a $2 hourly increase seems small and of little help to workers. For a full time employee working 2,080 hours per year, a $2 increase hourly would be a 4 percent salary raise to $104,160.

But a $2 hourly increase or a person making the minimum wage with a yearly income of $20,800 ($10 state minimum wage as of January 1, 2016), is quite a different story. For a full time employee working 2,080 hours per year, a $2 Napa County minimum hourly wage increase amounts to a 20 percent income increase to $24,960. So a $2 hourly increase is certainly of much higher value, in context, to a minimum wage worker than someone earning a six-figure income. Such a minimum wage worker receiving an increase would like be able to purchase an array of basic needs, and perhaps, afford a better living situation.

The different perceptions of the value of work have been playing out in the national media over the several months, as jurisdictions all over the country are pondering a local minimum wage law.

There are certain inherent arguments that always arise when considering a minimum wage law. One of these arguments is how owners, managers, and workers value their own labor. There seems to be a lack of understanding by some of the range of issues facing low-income workers and the impact of a $1 or $2 wage increase. Placing a price on labor is a difficult endeavor. But as we can see, in a mathematical context, a small wage increase certainly has the capacity to have a dramatic impact on the quality of life for a low-income worker than a middle-or high-income wage earner.

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Napa County Minimum Wage Increase

A. Introduction

Napa County enlisted the services of Dr. Rob Eyler to prepare an economic analysis of the impacts of a minimum wage increase in Napa County. This section discusses the effects of wage increases and establishes a methodology to formulate minimum wage schedules for Napa County to consider.

Minimum wage increases are meant to do many things for a municipality:

- ***Help support lower-income workers who may be losing purchasing power*:** One of the social goals is to provide low-wage workers with more income after inflation, and try to outpace the local cost of living through wage growth over time;

- ***Reduce the effects of market forces to suppress wage growth***: Because there are larger business costs with rising wages, businesses benefit when wages grow more slowly;
- ***Reduce poverty levels***: Higher income levels, especially those that outpace cost-of-living increases, reduce poverty. Households with higher incomes may eat better food, have increased or better access to medical care and use additional income to alleviate the challenges associated with poverty.
- ***Provide support for local businesses by injecting more purchasing power into the local economy***: An increase in the minimum wage may increase spending locally, especially for those workers that work and live in Napa County.
- ***Increase worker morale***: Higher wages may make workers feel more valued and take more pride in their work, leading to higher productivity and quality of goods and services.

There are some caveats and costs also, as higher minimum wages may:

- ***Increase the cost of doing business***: When wages are forced higher than surrounding areas, it may threaten the number of people employed, and provide a disincentive to business attraction, retention and expansion efforts. Such a change may also lead to reduced hiring levels or wage compression, both of which can exacerbate the costs to businesses.
- ***Increase the local cost of living:*** Businesses may increase prices to share their new costs with customers;
- ***Reduce purchasing power for fixed-income households:*** Purchasing power may erode for households on fixed incomes; and
- ***Increase wages but not poverty status***: rising income levels may pull workers out of a poverty designation, but not necessarily out of poverty conditions. Also, it may change household or individual eligibility for government benefits if wages rise too quickly.

Studies on the effects of changing the minimum wage focus on categorical concerns, including spillovers onto local municipalities and some neighboring counties. This study attempts to address the following questions about increasing the minimum wage in Napa County:

- ***What is the appropriate minimum wage and implementation schedule for Napa County that balances both gains and losses?***
- ***What are possible effects on citizens living on fixed incomes?***

- ***How many workers and what job types would be affected in Napa County?***
- ***With a minimum wage schedule chosen, how would it affect the local economy?***
- ***How many and what type of jobs could be lost as a result of a minimum wage increase?***
- ***What would be expected gains for the local economy?***
- ***What are the estimated costs for businesses, particularly those with higher numbers of low-wage workers (hotels, restaurants)?***
- ***What is the estimate of increased payroll taxes and worker's compensation costs?***
- ***Will an increase in minimum wage cause wage compression?***

B. Impacts of Minimum Wage Increases and Napa Demographics

Increasing the Minimum Wage: Price Pressure Upward

A minimum wage has a socioeconomic goal of preserving worker purchasing power from earned income. Loss of purchasing power can reduce a household's ability to afford basic needs. The California state minimum wage is $10 per hour, as of January 1, 2016.

San Francisco is a good example of increasing the minimum wage for a local area, as voters said yes to minimum-wage escalation in 2015 that increased the minimum wage from $10/ per hour to $12.25 per hour in 2016. Table 1 shows the progression of San Francisco's minimum wage as an example of a local minimum wage schedule. Minimum wages are normally set to increase along with the local cost of living (San Francisco has increased its minimum wage several times since 2006 as shown in Table 1), however the designated minimum wage is somewhat arbitrary.

The County of Napa faces the challenge of determining the appropriate minimum wage for the local economy. This study recommends that a change recognize that any increase comes with a variety of gains and losses.

San Francisco's minimum wage law is designed to outpace changes in the local cost of living and provide local workers with more purchasing power.

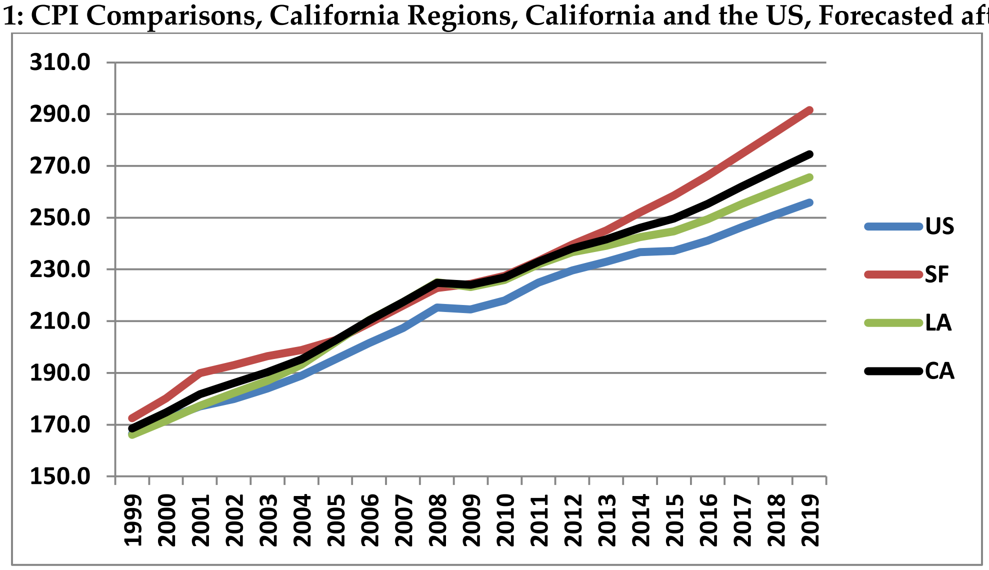
Table 1: The San Francisco Minimum Wage and Cost of Living Experience, 2006-2019

Year	Nominal Wage	Wage Percentage Change 2015 = 100	% change	CPI SF, Index 2015 = 100 DOF Forecast for 2015 - 2019	% change
2006	$8.82	79.8		80.7	
2007	9.14	82.7	3.6%	83.2	3.1%
2008	9.36	84.7	2.4%	86.0	3.4%
2009	9.79	88.6	4.6%	86.5	0.6%
2010	9.79	88.6	0.0%	88.0	1.7%
2011	9.92	89.8	1.4%	90.7	3.1%
2012	10.24	92.7	3.2%	93.3	2.9%
2013	10.55	95.5	3.0%	95.3	2.1%
2014	10.74	97.2	1.8%	97.8	2.6%
2015*	11.05	100.0	2.9%	100.0	2.2%
2016*	12.25	110.9	10.9%	102.9	2.9%
2017*	13.00	117.6	6.1%	106.2	3.1%
2018*	14.00	126.7	7.7%	109.4	3.1%
2019*	15.00	135.7	7.1%	112.8	3.0%

Sources: http://sfgov.org/olse/minimum-wage-ordinance-mwo and
California Dept. of Finance (http://www.dof.ca.gov), * = forecasted CPI

The percentage change in Figure 1 shows how both the national and state consumer price indices (CPI), including the San Francisco and Los Angeles MSA price data, have changed since 1999.

Figure 1: CPI Comparisons, California Regions, California and the US, Forecasted after 2016



Source: Bureau of Labor Statistics, http://www.bls.gov
And California Department of Finance (http://www.dof.ca.gov)

Notice in Figure 1 that until 2012, the California Department of Finance (DOF) shows the consumer price index (CPI) in San Francisco, Los Angeles and California moving together and slightly above the national average. Then, after 2013, San Francisco's local cost of living accelerates. The change in San Francisco's minimum wage may explain rising local prices, but the extent is uncertain. If we assume that wage growth is a major driver of price growth, then wage growth in Napa County will have some effect on local prices. Visitors to Napa County, where tourism is a large part of the local economy, may allow some businesses to increase prices and share some or most of that cost burden with those visiting the county. It is realistic to expect that an increase in minimum wage also affects residents of Napa County, particularly those living on fixed incomes.

***Summary**: The California Department of Finance is predicting that inflation in the San Francisco Bay Area will be 3.1 percent on average through 2019, where the state of California will be 2.2 percent, and both the Los Angeles MSA and the United States overall will be less than two percent. The minimum wage in San Francisco is historically tied to price changes and now is on a voter-approved, fixed schedule to 2019. We can assume that Napa County prices will more likely follow San Francisco and thus may range between 2.5 and 3.1 percent change per year through 2019.*

Potential Effects on Households with Fixed Incomes

Increasing the minimum wage may lead to costs borne by fixed-income households and residents. Such households may "live" on government transfer payments, including social assistance programs, pension income, Social Security, and other "fixed-income" assets. These residents may experience higher costs for local goods and services as businesses react to higher wages by increasing prices. Such a cost shock can put pressure on household budgets and lead to a reduction in the demand for services utilized primarily by these residents such as home health care.

A simple example would be an older couple that has aged in their home in Napa County and have worked for 40 years for various employers. They now both collect Social Security and a small pension (both fixed-income payments) otherwise, but they also have an in-home health care worker that comes three days a week to help with physical therapy and other household needs. The care worker is paid $10 per hour in 2016. An increase in the minimum wage increases the couple's costs of local goods and services (as some businesses the couple patronizes raise prices to pay for higher wages), and increases the couple's cost of employing the in-home care worker, thus reducing their household purchasing power, but not affecting their gross income. The federal government and their pension provider are unlikely to provide this couple with a specific, income adjustment when facing higher local prices.

Napa County, overall, has a higher percentage of senior citizens than many other California counties. The median age in Napa is 41.5 years old, and the percentage of the population over 65 (a way to approximate the number of people on fixed incomes) is 16.0 percent. The state's median age is 35, with only 12.1 percent over the age of 65 (2014 data from the Census Bureau's American Community Survey; see factfinder.census.gov for more). It is not possible, short of a door-to-door household survey, to know the wealth each fixed-income household has available to supplement an ability to live with higher local prices and wages. Further, it is difficult to determine how macroeconomic and other regional markets may impact the price of goods and services absent a minimum wage increase.

Data in Table 2 are from the American Community Survey (ACS) for the period between 2010 and 2014. The data, while an average of five years of time, are seen as more robust than the one-year analysis also available from the Census Bureau. These data show the percentage of households in Napa County overall and in the six jurisdictions (five incorporated and the unincorporated parts of Napa County) by income source. The percentage may not sum to 100 percent because households have a mix of income sources.

Table 2: Median Household Income, Total Households, and Percent of households on Government Assistance or Pension Incomes, 2010-2014;

	Napa County	American Canyon	Calistoga	City of Napa	St Helena	Yountville	Unin-corporated
Median Household Income	$70,925	$81,955	$52,131	$64,058	$78,421	$65,658	≈$70,925
Total households	49,631	5,744	2,187	28,476	2,568	1,307	9,349
With wage and salary earnings	79.20%	87.60%	75.40%	79.10%	73.20%	61.90%	78.94%
With Social Security	31.20%	25.60%	33.10%	28.80%	41.60%	49.20%	36.29%
With retirement income	21.10%	16.80%	22.30%	20.60%	23.40%	32.10%	22.48%
With Supp. Security Income	4.70%	6.60%	5.10%	4.80%	4.30%	3.20%	3.54%
With cash public assist. income	1.80%	3.10%	1.60%	2.00%	1.60%	0.00%	0.77%
With Food Stamp/SNAP benefits	5.30%	5.60%	4.70%	6.60%	1.40%	0.00%	3.08%

Source: American Community Survey (2014), http://factfinder.census.gov

Summary: *In short, some households in Napa County will be more affected than others by price increases, specifically those with fixed incomes. As with all households in Napa County, any increase in the local cost of living due to the minimum wage increasing by local policy choice reduces the purchasing power of households, if prices increase faster than any changes in income.*

Wage Levels and Definitions

Raising the minimum wage can function like a local tax on businesses. Employers face higher costs of doing business locally that they would not face by locating elsewhere.

An increase in the minimum wage assumes that local businesses can pass through this cost change to consumers (what an economist would call "shifting the incidence" to consumers), at least partially if not completely. It is important to recognize that wages may not be a worker's only "benefit" from working. Many workers receive benefits, such as health care and retirement contributions, which also have a cost to the employer. An increase in the minimum wage could reduce contributions that employers make to other benefits and thus have a reverse effect by increasing the cost of these items to the employee.

Further, not all workers are directly affected by a minimum wage change, as their wages or salaries per hour are higher than the minimum wage. The economic goal of a minimum wage is to be "effective" with respect to the market wage. For example, if the minimum wage is raised to $15 per hour and the lowest wage paid in the local area is $16 per hour due to market forces, the new minimum wage will be "ineffective" because the local labor market is not changed by the new policy.

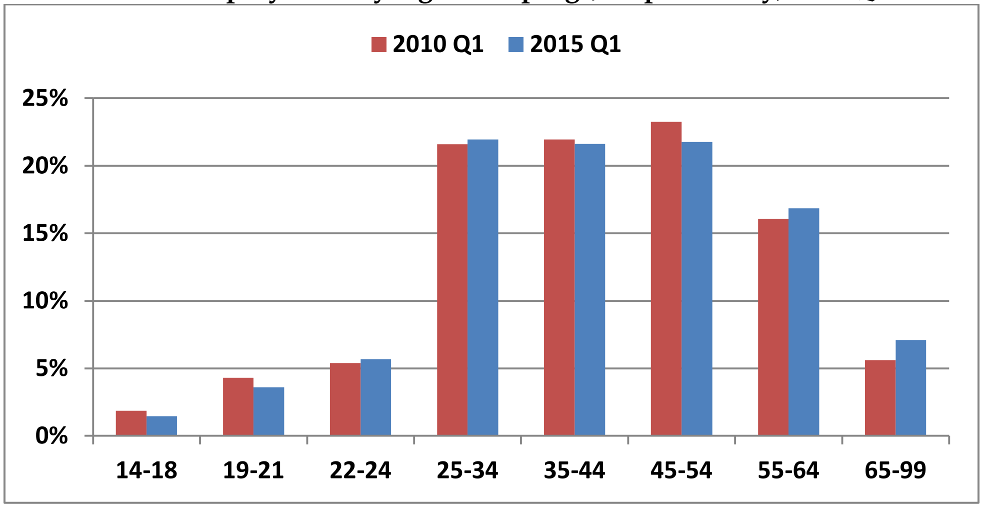
An effective minimum wage increases the supply of workers and reduces the demand for workers locally because there are enough workers interested in meeting the demand. Consumers and businesses share the burdens of such policies, redistributing income toward lower-wage workers in the form of higher minimum wages.

Age and Effects

One aspect is the effect of minimum wages on different ages of workers. Lower-wage workers are sometimes associated with younger workers. Figures 2 and 3 show the average wage by age groupings from the Census Bureau data and also the percent of employed workers in 2015 Quarter 1 by the same age groupings. Figure 2 shows that there has been a slight shift in the age of workers toward 55 and older since 2010.

Given the low, average hourly wages of the younger workers, it is likely that a minimum wage change upward will disproportionately affect younger-age workers, especially those under 21 years old. In Figure 3, we see that wages escalate with age in Napa County as of 2015 quarter 1.

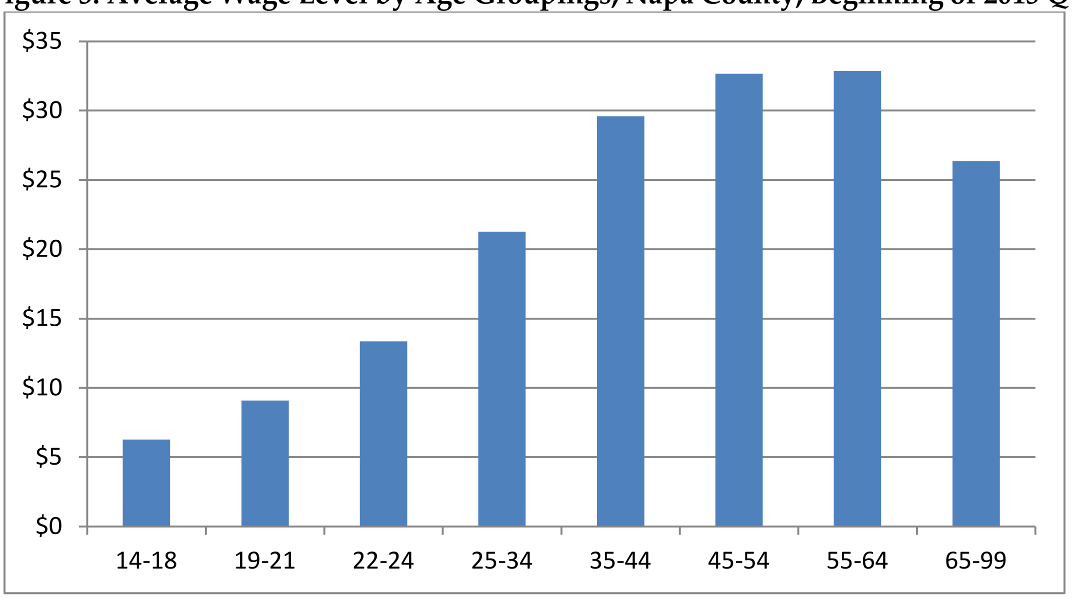
Figure 2: Percent of Employment by Age Groupings, Napa County, 2010 Q1 and 2015 Q1



Source: Quarterly Workforce Indicators, qwiexplorer.ces.census.gov

One theme of this study is the balancing act between trying to relieve low-wage conditions for some workers and minimize the harm to local businesses that face rising costs of doing business if the minimum wage increases. The changes may spill over onto other areas.

Figure 3: Average Wage Level by Age Groupings, Napa County, Beginning of 2015 Q1



Source: Quarterly Workforce Indicators, qwiexplorer.ces.census.gov

The Spillover Effect

Napa County includes the jurisdictions of Calistoga, St. Helena, Yountville, the City of Napa, and American Canyon, and the unincorporated portions of the County. The Longitudinal Employment and Housing Dynamics (LEHD) database shows employee flows happen among the cities and towns in Napa County, as of 2013. Table 3 shows these estimates of the percentage of workers employed by Napa County businesses live in Napa County and are "inbound workers" or commute into Napa County. Table 3 also shows the percentage of Napa County residents that also work in Napa County or are "outbound residents", commuting outside the county to work.

Table 3: Where Napans Work, 2013

Working in Napa County	Workers	Living in Napa County	Residents
Workers in Napa	68,127	Working Residents of Napa County	64,104
Live in Napa incorporated and Work in Napa County	40.8%	Live in Napa County and work in Incorporated Napa County	34.6%
Live in unincorporated Napa and work in Napa County	9.2%	Live in Napa County and work in Unincorporated Napa County	18.5%
Inbound workers	50.0%	Outbound residents	46.9%

***Source*: onthemap.ces.census.gov**

Napa County should be aware that any decision to increase the minimum wage has spillover effects onto other places.[1] For example, if the unincorporated portion of Napa County increases its minimum wage alone, it is likely that rising wages become regional because other places that seek workers from the same labor pools need to stay competitive when higher wage jobs are locally available.

The towns and cities of Sonoma, Petaluma, Vallejo, Fairfield, and some cities in Marin County may experience changes in their labor market because these areas share workers in a *regional* labor market. In 2013, citizens living within Napa County filled approximately 50 percent of the jobs in the entire County, which means about 50 percent are inbound commuters from elsewhere. So some percentage of those workers will take a new minimum wage and its increase in income outside of

[1] Beacon Economics (2014) recently performed a cost-benefit analysis of considerations in the Los Angeles area around an increase in the minimum wage. They conclusions were in some contrast to the Center for Labor Research (2014) at UC Berkeley, which are more net positive in general for rising minimum wages; Beacon was more net negative. Each study has an extensive bibliography of academic and practical research on this topic.

Napa County.[2] Raising the minimum wage concentrates new income and spending where workers live.

Methodology

The economic analysis for Napa County utilizes data from the Occupational Employment Statistics and Wages (OES) program, an annual survey measuring occupational employment and occupational wages by industry and county. The wages are placed into 10^{th}, 25^{th}, 50^{th} and 75^{th} percentiles with the 50^{th} percentile representing the median wage level, meaning that half of the workers in that industry are paid less than the mean and half of the workers are paid more. Table 4 shows the median wage data for 2015 Q1 across major occupational categories.

The methodology for this report is designed to push the bottom of the wage distribution (10^{th} percentile) upward to establish a new fixed minimum wage. To create the initial data set, the bottom of the wage distribution will be set at the new state minimum wage rate of $10 per hour if the 25^{th} percentile for that industry falls below that amount. The simulation exercise then increases the 25^{th} percentile by different minimum wage floors to determine the potential impacts to the local economy. Predicted wage growth from other regional economic forces and employment growth will be considered in the analysis. Finally a range of the initial impact from the wage increase is established.

On July 1, 2014, there was a 12.5 percent increase in the minimum wage from $8 to $9 per hour in California. The percentage change from 2014 to 2015 of *local* wages at the *median level* was only 2 percent. However, at the 25th percentile, there was a 2.3 percent increase in wages overall from Q1 in 2014 to Q1 in 2015, where the state of California raised the minimum wages during that time.

With wages overall in the United States rising in 2014 by 2.6 percent, and in California by 2.0 percent, it is possible that Napa County's wages are rising due to macroeconomic changes and forces more than local markets evolving.[3]

The local economy may grow and create more business revenues from that growth alongside of new wages. For these reasons, the minimum wage may not have much of an effect on price levels or on employment, if the local economy is growing.

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[2] See the Longitudinal Employment and Housing Dynamics (LEHD) data on commuting and more through 2013 at http://onthemap.ces.census.gov.

[3] See Bureau of Labor Statistics for wage data comparisons, http://www.bls.gov.

If a recession comes and business revenues contract in Napa County, the minimum wage will be difficult if not impossible to reduce. Such a downturn affects local businesses' ability to either keep workers in their jobs or to stay in business. Inflation is both a by-product of growth and a curse that changes costs for business. When inflation is driven by wages, or remains at times when consumer demand goes away because the inflation is caused by regulation or ordinance, this restricts a local business from using new revenue to offset new costs.

Table 4: Napa Wage Levels, Median, 2015 Q1, Occupation Categories

Occupational Category	Median Wage, Quarter 1, 2015	Median Wage, Quarter 1, 2014	Median Wage, Quarter 1, 2013
Total all	**$18.00**	**17.75**	**18.00**
Architecture and Engineering	37.27	37.99	35.83
Arts, Design, Entertainment, Sports, and Media	22.62	21.74	22.41
Building and Grounds Cleaning and Maintenance	13.38	13.60	13.69
Business and Financial Operations	33.49	32.04	32.29
Community and Social Services	22.32	22.98	23.15
Computer and Mathematical	35.24	36.35	34.16
Construction and Extraction	26.99	24.99	25.30
Education, Training, and Library	25.53	25.12	26.51
Farming, Fishing, and Forestry	11.98	11.41	12.34
Food Preparation and Serving-Related	11.43	10.97	10.42
Healthcare Practitioners and Technical	42.61	45.03	44.54
Healthcare Support	15.85	16.67	16.45
Installation, Maintenance, and Repair	22.40	23.04	23.31
Legal	26.50	28.00	30.31
Life, Physical, and Social Science	35.62	35.41	35.16
Management	46.43	45.95	46.48
Office and Administrative Support	17.81	17.72	18.56
Personal Care and Service	11.76	10.63	11.20
Production	17.15	17.74	16.75
Protective Service	18.19	15.25	15.47
Sales and Related	17.29	15.71	15.57
Transportation and Material Moving	$14.62	$15.40	$15.10

Source: http://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html#OES

Wage Compression

With a minimum wage increase, wage compression is yet another issue to consider. If we assume that employment is distributed like a bell curve (normal distribution), there are two ways to look at wage compression:

- Wage compression happens as lower wages rise and squeezes toward the middle wage level (median), shifting the entire distribution; or
- New minimum wages compress the distribution's lower end and more workers exist at wages the new minimum wage than before the wage increase, but the median wage stays the same.

The former is a more likely scenario as a minimum wage escalates toward its goal wage, but may take some time. Wages are normally a reflection of skills, education, and other factors that reward higher levels of these other factors as local wages rise. If the minimum wages rises, shifts in wages above the new minimum as a reaction should be expected, hence the distribution is likely to shift. This further increases the costs of doing business, but the time it takes for these adjustments is somewhat uncertain.

Also, because general prices rising locally are not likely to change significantly due to new minimum wages, the potential changes implied for other wage demands immediately are likely small. Different studies have different opinions on how to use countywide data to make sub-county conclusions.

Changing the Local Cost of Living

One challenge is to understand how local prices change with new local wages and how macroeconomic forces confound the estimated effects otherwise. Napa County price levels are usually included or considered as part of the San Francisco metropolitan statistical area (MSA). Napa County does not have its own price index.

There is a reality check here. If local prices in Napa County increase, local residents have incentives to seek goods and services in other, regional markets that are not as affected by the Napa County wage change. Cities like San Francisco wager that tourism provides opportunities for local businesses to increase prices because their patrons are indifferent to price changes. Napa County and San Francisco County share this characteristic as tourism areas. Less urban communities may struggle with local residents spending money in other, local areas regionally that may have lower prices.

In the short term, there may be a relatively strong effect on those populations that are price sensitive (households on fixed incomes as an example. In the long term, the competition between local and regional goods markets help equalizes the effects and regional prices want to rise together.

Different Opinions

Recent research by Center for Labor Research at UC Berkeley concerning a proposal by the City of Los Angeles to increase the minimum wage suggests that the effects may be net positive on Los Angeles.

These findings suggested a lack of impacts on the following categories: local employment or hours workers; local prices; existing business costs; local business growth (new businesses or expansions). They did find a "significant" impact related to personal income growth and poverty reduction in the City of Los Angeles. There would also be targeted, positive impacts on working poor and minority workers at lower-income levels.[4]

Beacon Economics also did a study on the city of Los Angeles, and had concerns about the UC Berkeley group's methodology. Beacon Economics noted that the UC Berkeley study used countywide data rather than city specific data. This presents a problem as the City has most of the County population but only 40% of the economy.

The study lacked robust data on economic transactions between the City of Los Angeles and other cities in the County, especially bordering towns and cities where people may work or live.

Finally, Beacon Economics felt that business profitability was not discussed in the report, only wage an employment data.[5]

Figure 4 provides a simple summary of the effects from increasing a minimum wage, both positive and negative, as discussed in this study. Some of these confounding elements are also in recent work about the economic and social effects of increasing the minimum wage in economic theory.

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[4] See the Center on Wage and Employment Dynamics at UC Berkeley, http://irle.berkeley.edu/cwed/briefs/2015-01.pdf

[5] See Beacon Economics' study at https://assets.documentcloud.org/documents/1689642/beacon-economics-report-on-minimum-wage-boost.pdf

Figure 4: The Effects of a Minimum Wage Increase

C. Napa County Analysis

Two recent "Economic Letter" issues from the Federal Reserve in San Francisco provide more background on the effects of increasing the minimum wage on two specific targets of social policy: employment and poverty. In classic economic models, increasing the minimum wage *causes* unemployment to grow when effective or binding. One of the key considerations of this policy choice is the effect on jobs and incentives to hire or not hire.[6]

The amount of employment change is a response to wages changing, known generally as "elasticity." Studies have estimated elasticity in the context of rising minimum wages. In few to no cases is there a positive value of this elasticity, where an increase in the minimum wage actually leads to more jobs in the businesses facing higher wages. The debate is really about how few or many jobs are lost rather than if there are jobs lost or not; we see later that across the affected area, there may be net job gains, but this conclusion depends greatly on the elasticity of affected businesses.

In a related study, the effects on poverty rates as a result of increasing the minimum wage are discussed. One of the major considerations here is how individual effects of rising wages may translate (or not) into rising family incomes. Evidence suggests that increasing the minimum wage reduces income inequality, but that conclusion relies on a lack of wage compression and subsequent changes in local prices and wages otherwise. The poverty level's definition changes annually, is normally based on a family of four, and is adjusted for national-level not local-level pricing. At $15 per hour, the individual worker would earn $30,000 for a 2,000-hour equivalent year, and two people living together and earning that wage would have a family income over 200 percent of the

[6] See http://www.frbsf.org/economic-research/files/el2015-37.pdf for the full study by Neumark.

federal poverty line. This may exclude such a family (assuming two children to make a family of four) from federal programs for child care, school and health care if eligibility is based solely on income. At the federal level, the earned income tax credit may be lost when the minimum wage rises beyond the applicable level. The loss of other supports to poor families may leave them financially worse off under new minimum wages in net.[7]

This section depicts what would happen to Napa County if the minimum wage were to increase. The analysis below uses the latest wage data to determine how lifting the minimum wage affects business and consumer decision-making. The important of elasticity is emphasized below and leads to an estimate of job losses and workers impacted by a minimum wage increase. The predicted effects are sensitive to how employers react to new wage levels.

Estimated Effects

The California minimum wage increased to $10 per hour on January 1, 2016 and is the starting point for an analysis on the potential impacts of increasing the minimum wage. Utilizing wage data from Occupational Employment Statistics and Wages (OES)[8], a minimum wage increase was analyzed in dollar increments utilizing the following assumptions:

- Employment is distributed in a bell curve, thus the bulk of employment for each industry is close to the median;
- Median wages remain unchanged initially and increase over time based on market forces after the ordinance implementation;
- Employment levels react to the new wage based on an elasticity of -0.1, meaning that 10 percent of the percentage change in wages is the estimated percentage change in employment;
- The elasticity may vary over time due to regional and national trends;
- An increase in the wage level leads some businesses to reduce planned hiring levels or fire workers overtly; and
- Some jobs are supported and demand may increase due to these higher wages leading to higher consumption levels in Napa County.

[7] See http://www.frbsf.org/economic-research/files/el2015-38.pdf for the full, second study by Neumark.
[8] See the OES data at http://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html

Workers and households potentially affected in Napa County

Tables 5 and 6 explore what job classifications and occupations would be most likely affected by an increase in Napa County's minimum wage. Table 5 depicts the jobs lost while Table 6 lists the number of employees that would gain from a minimum wage increase at each dollar level. The impacts are cumulative meaning that the change at $12 an hour includes the workers shown in the $11 an hour column. The key here is to recognize that a wage increase affects those occupations that currently exist at or below a new minimum wage. This study does not address jobs that may be created or lost due to other economic forces. Notice in both tables, as the minimum wage rises, more jobs are affected both positively and negatively.

This is where the assumptions of this study become important. The wage and employment data do not exist at the city level. Occupations and employers are not a one-for-one match, so we are talking here about job types or occupations and not employers. Further, the effects on job losses are specific to workers in Napa County, but the effects are reduced by the amount of workers we assume go to other places to live. In Table 5, the estimated job losses are for residents of Napa County that also work in Napa County.

We assume the $10/hour minimum wage is in place as of January 1, 2016 and that changes in wages would be an increase of 2 percent across the board during 2016 due to economic conditions. The commute patterns are crucial to this analysis: the more local workers at low wages that come from outside the county, the fewer gains Napa County receives from the wage increase, hence the larger loss. As of 2013, approximately 50 percent of Napa County's workforce lives in Napa County.[9] The unincorporated parts of Napa County are skewed toward using more local labor.

There are other assumptions that are critical to understanding this study. First, the elasticity is set at -0.10, a conservative assumption. If the elasticity is more negative yet other conditions remain the same, Napa County likely experiences greater job losses. If the elasticity is less negative, there will be less job loss and more workers positively impacted. Further, if wages grow faster for non-local reasons, the minimum wage has less of an impact. The main results depend on these assumptions.

One industry of interest is hospitality (hotel/motel, restaurant workers, e.g.). Tables 5 and 6 have three categories where hospitality jobs are mainly found: Food Preparation and Serving-Related; Office and Administrative Support; and Building and Grounds Cleaning and Maintenance. The hospitality jobs lost are shown in Table 5 and are dominated by jobs inside restaurants (across most possible occupations in restaurants). Table 6 shows the effects on hospitality jobs in terms of how many jobs are estimated to have higher wages if the minimum wage increases.

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[9] See the LEHD data, http://onthemap.ces.census.gov

Utilizing hospitality workers as an example, this analysis estimates the shock to the market and the sensitivity of business if a significant increase in minimum wage is enacted immediately. In this example, an immediate increase in minimum wage to $11 per hour will result in approximately 11 lost jobs but increase wages for 2,089 hospitality industry employees. An immediate increase to $15 per hour would result in 191 lost jobs and increased wages for 8,379 hospitality industry employees. Gradually increasing the wage levels provide more planning and may lessen the shock to the local market while achieving the outcome of increasing the minimum wage.

Table 5: Estimated Jobs Lost by Increases in the Minimum Wage

Dollar Increments, Full-Time Equivalent Workers, By Occupation, 2015 Q1 Base

		New Minimum Wage Level				
Occupation Category	**% Emplmnt**	**$11**	**$12**	**$13**	**$14**	**$15**
Architecture and Engineering	5.5%	-	-	-	-	-
Arts, Design, Entertainment, Sports, and Media	3.6%	-	-	-	-	-
Building and Grounds Cleaning and Maintenance*	0.6%	-	(3)	(9)	(17)	(29)
Business and Financial Operations	0.6%	-	-	-	-	-
Community and Social Services	0.9%	-	-	-	-	-
Computer and Mathematical	1.4%	-	-	-	-	-
Construction and Extraction	0.3%	-	-	-	-	-
Education, Training, and Library	5.3%	-	-	-	-	(1)
Farming, Fishing, and Forestry	0.7%	-	(5)	(13)	(23)	(36)
Food Preparation and Serving-Related*	6.2%	(11)	(61)	(86)	(115)	(161)
Healthcare Practitioners and Technical	3.3%	-	-	-	-	-
Healthcare Support	1.7%	-	(1)	(3)	(6)	(10)
Installation, Maintenance, and Repair	14.0%	-	-	-	-	-
Legal	5.3%	-	-	-	-	-
Life, Physical, and Social Science	2.7%	-	-	-	-	-
Management	11.0%	-	-	-	-	-
Office and Administrative Support	13.3%	-	(4)	(8)	(15)	(26)
Personal Care and Service	4.3%	(1)	(7)	(10)	(14)	(20)
Production	4.5%	-	(2)	(3)	(6)	(10)
Protective Service	2.8%	-	-	-	(1)	(3)
Sales and Related*	5.9%	-	(8)	(18)	(30)	(48)
Transportation and Material Moving	6.1%	(2)	(12)	(19)	(26)	(39)
Total Jobs affected in Napa County	**100.0%**	**(14)**	**(103)**	**(169)**	**(253)**	**(383)**
Hospitality Jobs (within categories *)	**14.0%**	**(11)**	**(64)**	**(95)**	**(133)**	**(191)**
Lost Income, 50 percent of workers live in Napa County		$(280,000)	$(2,060,000)	$(3,380,000)	$(5,060,000)	$(7,660,000)

Sources: http://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html#OES and Author's Calculations

Table 5 shows the estimated jobs losses for local residents that also work at lower wages. Notice that hospitality jobs are initially the main jobs affected; if the wage were to immediately jump to $15 per hour from $10 per hour, the losses of jobs would be spread across more occupations. The estimated amount of lost wages is based on the number of local residents that lose their jobs, and that these workers were paid $10 when no longer hired. The dollar increments are based on the initial change, not a slow and steady change over time. Tables 5 through 8 shows estimated effects for $1 per hour changes to 2017 wages (the initial change) only.

Table 6: Jobs Affected by Increases in the Minimum Wage

Dollar Increments, Full-Time Equivalent Workers, By Occupation, 2015 Q1 Base

	New Minimum Wage Level				
Occupation Category	**$11**	**$12**	**$13**	**$14**	**$15**
Architecture and Engineering	-	-	-	-	-
Arts, Design, Entertainment, Sports, and Media	-	-	-	-	-
Building and Grounds Cleaning and Maintenance	-	816	810	3,216	3,188
Business and Financial Operations	-	-	-	-	-
Community and Social Services	-	-	-	-	-
Computer and Mathematical	-	-	-	-	-
Construction and Extraction	-	-	-	-	-
Education, Training, and Library	-	-	-	-	-
Farming, Fishing, and Forestry	1,237	1,225	3,144	3,114	4,193
Food Preparation and Serving-Related	2,089	8,399	8,308	8,219	8,129
Healthcare Practitioners and Technical	-	-	-	-	-
Healthcare Support	-	-	556	552	548
Installation, Maintenance, and Repair	-	-	-	-	-
Legal	-	-	-	-	-
Life, Physical, and Social Science	-	-	-	-	-
Management	-	-	-	-	-
Office and Administrative Support	-	-	-	110	108
Personal Care and Service	715	1,912	1,893	1,873	1,853
Production	-	-	586	582	578
Protective Service	-	-	-	558	553
Sales and Related	-	-	725	718	712
Transportation and Material Moving	445	441	437	433	3,116
Total Jobs affected in Napa County	**4,486**	**12,793**	**16,459**	**19,375**	**22,978**
Hospitality Jobs affected	**2,089**	**8,399**	**8,458**	**8,419**	**8,379**
Income Change, assuming 50 percent of workers live in Napa County	**$4,486,000**	**$25,586,000**	**$49,377,000**	**$77,500,000**	**$114,890,000**
Local Tax Revenue Due to Additional Income and Spending	**$72,600**	**$412,600**	**$791,100**	**$1,243,800**	**$1,841,100**

Sources: http://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html#OES and Author's Calculations

Notice in Table 5 there is a large jump in job losses from $14 to $15. The number of workers at risk by an increase in the minimum wage increases as wages rise. Generally, these ordinances are "phase-in" decisions, which can provide time to sort out local labor markets and adjust to new wage conditions. The income change for workers is based on a 2,000-hour work year.

In Table 6, the jobs affected by the wage increase are net of jobs that gain from an initial increase on wages and those jobs lost by the larger minimum wage. The idea is that with a larger minimum wage, worker at less than $11 per hour, now are paid that wage; 4,486 people working for Napa County employers are now paid $11 per hour.   If the jumps is made to $15 per hour initially, almost 23,000 workers in Napa County are paid $15 per hour; as many as 50 percent of those workers may not live in Napa County, however.   The income change line, which triggers the economic impact analysis below, reflects that possibility in terms of residents of other counties gaining access to the higher minimum wage in Napa County and taking that income home. The local tax revenue is estimated from IMPLAN®, as are the estimated creation of jobs by industry shown in Table 7. Reducing the income gains shown in Table 6 to 50 percent of the affected workers connects Table 5 and 6. These results are sensitive to the number of inbound commuting workers from outside Napa County, as the more workers live elsewhere; the less Napa County supports local residents through any change to the minimum wage.

Potential Creation of Jobs

Once the minimum wage is changed, it triggers a broader set of economic effects depending on the number of new jobs gained or lost, the number of businesses affected (perhaps that go away due to a higher level of local wages and thus business costs), and also the estimated increase in spending levels of local workers (shown in Table 6) augmented by the new minimum wage. Few studies add the element of economic impact from this policy change. Adding this detail shows how such a decision affects any business through indirect (how businesses are affected) and induced (how workers spend their new wages affects other businesses and workers) effects.

It is really not about business closures as it is about loss of business profits. There are certainly industries that will have a large number of new workers at higher wage levels. IMPLAN®, an economic impact dataset and model, allows us to use the estimated increase in aggregate wages as new spending in Napa County, offset from new business costs due to higher wages levels and workers that live elsewhere, to estimate local jobs and income lost or gained in net.[10]

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[10] See more on IMPLAN® at www.implan.com.

Table 7: Number of Jobs Supported, changes in min wage by dollar increments

Industry	$1	$2	$3	$4	$5
Real estate	2.2	12.7	22.6	35.6	52.7
Hospitals	1.4	7.8	14.7	23.2	34.2
Individual and family services	1.0	5.5	10.3	16.3	24.1
Full-service restaurants*	1.0	5.2	10.3	16.2	24.0
Limited-service restaurants*	1.0	5.1	10.1	15.9	23.6
Retail – Grocery stores	0.7	4.0	7.7	12.1	17.8
Offices of physicians	0.7	3.8	7.3	11.5	17.0
Retail – Department stores	0.5	3.4	6.4	10.1	15.1
Nursing and community care facilities	0.5	3.4	6.4	10.1	15.1
Employment services	0.5	3.2	5.8	9.0	13.4
All other food and drinking places*	0.5	2.9	5.8	8.9	13.3
Personal care services	0.4	2.6	5.2	8.2	12.2
Building material, garden equipment and supplies stores	0.4	2.1	3.8	6.0	8.9
Offices of dentists	0.4	1.9	3.7	5.9	8.8
Automotive repair and maintenance, except car washes	0.3	1.9	3.8	5.9	8.8
Retail – Miscellaneous store retailers	0.3	1.8	3.4	5.5	8.1
Services to buildings	0.3	1.8	3.3	5.2	7.7
Home health care services	0.3	1.8	3.3	5.2	7.7
Other personal services	0.3	1.6	3.4	5.5	8.1
Wholesale trade	0.3	1.6	3.2	4.8	7.3
Other financial investment activities	0.3	1.6	3.0	4.8	7.1
Offices of other health practitioners	0.3	1.6	3.0	4.8	7.1
Private households	0.3	1.6	3.2	4.9	7.4
Retail – Clothing and clothing accessories stores	0.3	1.5	2.9	4.5	6.8
Residential mental health, substance abuse, other facilities	0.3	1.4	2.7	4.2	6.3
Banks and Credit unions	0.3	1.2	2.3	3.6	5.3
Retail – Health and personal care stores	0.3	1.2	2.2	3.4	5.2
Retail – Motor vehicle and parts dealers	0.1	1.1	2.1	3.3	4.9
All Others	5.6	31.6	61.2	96.3	142.6
Totals	**20.7**	**117.1**	**223.3**	**351.1**	**520.0**
Jobs Lost	**-14.0**	**-103.0**	**-169.0**	**-253.0**	**-383.0**
Net Jobs Lost or Gained	**6.7**	**14.1**	**54.3**	**98.1**	**137.0**

*Sources: EFA Calculations (Note: Employers with an * are consider hospitality industry)*

The minimum wage is assumed to have some income redistribution that becomes new spending. The sensitivity of local businesses to the new costs dictates whether the increased costs of doing businesses outweigh the worker wages and new spending.

While wages may increase for some types of occupations that operate with lower-wage levels, other businesses will be boosted by the increased spending in Napa County, which provides another redistribution of income. Table 7 shows the industries affected in terms of jobs support by the assumed increase in spending from Table 6.

Summary: Changes in the minimum wage are likely to generate both positive and negative effects. It is impossible to accurately predict what will happen and a model was used to estimate the impact. These models are sensitive and a change in elasticity or macroeconomic forces would change the results.

Business Costs

As Figure 3 shows, there are costs beyond the job losses. However, it is difficult to measure many of the other costs without making additional assumptions about Napa County's economy. We know businesses will face higher costs. Whether business profits fall depends on the number of workers a specific business pays the new wage, the change in the actual wage structure (how large is the change), and if the businesses in question are facing growing or declining revenues.

Businesses and Minimum Wage Increases

The last row of Table 5 provides an estimate of additional wage costs for Napa County businesses, which become larger wage income for workers. In 2014, Napa County generated business revenues of over $8.8 billion spread over 100 different industry types.[11] At $1 dollar more of a minimum wage, the estimates in Table 6 suggest wage costs will rise by $8.97 million based on the estimated increase in worker income of $4.486 million for 50 percent of the workers (assumed to live and work in Napa County), which is also the increase in wages for businesses. Table 6 shows the estimated increased income for local residents based on the number of workers affected by the $1 increase, but we assume only 50 percent of those workers live in Napa County; local businesses bear the entire wage cost regardless of where the worker lives.

Table 5's results suggest that there are four occupations that are likely to see the largest effects:

- Building and Grounds Cleaning and Maintenance;
- Farming, Fishing, and Forestry;
- Food Preparation, Serving-Related and Hotel Clerks and Cleaners (Hospitality);
- Transportation and Material Moving.

[11] See Bureau of Economic Analysis for the Napa metropolitan statistical area (basically Napa County) estimate of grows product at http://www.bea.gov/regional/index.htm.

Maintenance workers may work in an array of industries. Transportation workers, farm workers, and restaurant workers are also on this list. It is possible to make the case that tip income exists in restaurant (food prep and serving) and transportation jobs, hence the lower base wage. Hospitality jobs are a large part of the affected workers and businesses, though a small proportion (approximately 14 percent of occupations in 2014) of Napa County's overall employment base. Regardless, wages may rise across multiple occupations and current wage levels and then affect more local businesses.

There are also wage-related costs, including workers-compensation insurance (typically a mix of medical care and other forms of work-related insurance) calculated at some number of cents per $100 of payroll. Depending on the number of worker classifications at an employer, this cost may rise or fall. Payroll taxes have remained at 6.2 percent in 2016 for employers to match employee contributions to Medicare and Social Security. Since every employer is different, the key is recognizing these costs will be going up, not down, with a higher level of wages paid.

We can look at payroll taxes alone to understand some additional costs beyond the wage change for local businesses. If there is a one dollar increase to the minimum wage to $11 per hour, the estimated increase to payroll costs suggests Napa County businesses overall may face approximately $278,000 more payroll tax costs annually as shown in Table 6. At $15, the additional wage payments mean Napa County businesses pay an additional $7.21 million annually in aggregate payroll taxes. Additional worker's compensation insurance costs simply add to costs of doing business. While Napa County may receive a small windfall from this change, Napa County businesses facing the new minimum wages pay more in taxes that go to the state of California and the federal government.

Wage compression and re-setting of the wage schedule may take place in some businesses versus others. The exact amount of wage compression, and in what industries are most likely affected, depends on how wages are set by each industry. In union environments, an increased minimum wage may have little effect on union wages initially, unless there are union members at the minimum wage or directly affected by the changes contractually. In some contracts, there may by clauses were certain classifications retain at a gap between higher and lower wage classifications. However, every labor contract will be different, as not all wage changes are created equal.

There may also be new wage demands by workers in non-union workers to their counterparts experiencing a wage increase and their wage not changing. More local businesses, they should expect higher wage demands, whether there is a union contract or not. The trade-off with slow and steady increases toward a goal wage is that, as time goes by, labor markets adjust to new wages and compression comes as a natural by-product on increasing the lower end of the wage distribution.

***Summary**: because every business is different, we do not know the extent to which a specific business or industry will weather the changes from a new minimum wage. We do know that some costs, which are a function of payroll levels, will rise for businesses beyond the new wages paid. These include:*

- *Payroll taxes rising (negative);*
- *Worker's Compensation insurance premiums rising (negative); and*
- *Cost of compliance for the minimum wage ordinance, which is a new cost (negative).*

How Each Municipality in Napa County Can Use these Methods

Napa County's cities can use these data to consider what kind of businesses would see some positive effects. Using each municipality's data on employment (which lag by two years but are available from the Census Bureau through the LEHD data) and presuming wages are the same across the county, the municipality-level effects can be estimated. The same steps as above would apply.

Table 8 shows the number of people estimated to be employed in each city or town in Napa County and the unincorporated area. These data come from LEHD as the basis for the estimate in the second column, called "% of Jobs." The data from both Tables 5 and 6 are then spread based on those percentages across the cities. Minimum wage jobs in Napa County are spread throughout the county, but tend to concentrate in the three, largest commercial areas: the City of Napa, St. Helena, and the unincorporated portion of Napa County, including Angwin and Deer Park. Because the wage data (as in Table 4) do not exist at the city level, readers should use these estimates as rough and based on the 2002-2013 employment proportions only.

Of major importance in estimating these effects at the city level is: a robust estimate of the number of workers that are currently at the minimum wage (which is difficult at the city level in terms of how employers pay their workers); and what reaction local employers would have to higher wages in terms of reducing employment levels or slowing down hiring or both. Table 8 provides an estimate by spreading the effects across the municipalities based on percentage of employment to the Napa County total based on the average proportion in each community between 2002 and 2013.

Table 8: Estimated Effects on Municipalities in Napa County

Municipality	% of Jobs (2002-2013)	Est Workers Jobs Lost					Est Workers Jobs with Higher Wages				
		$11	$12	$13	$14	$15	$11	$12	$13	$14	$15
Yountville	3.1%	0	-3	-5	-8	-12	139	397	510	601	712
Calistoga	3.2%	0	-3	-5	-8	-12	144	409	527	620	735
American Canyon	4.0%	-1	-4	-7	-10	-15	179	512	658	775	919
Napa	45.5%	-6	-47	-76	-115	-175	2,041	5,820	7,489	8,816	10,456
St Helena	12.1%	-2	-13	-21	-31	-46	543	1,548	1,992	2,344	2,780
Unincorporated (County)	32.1%	-5	-33	-55	-81	-123	1,440	4,107	5,283	6,219	7,376

Sources: http://onthemap.ces.census.gov and Author's Calculations

Wage Schedule Scenarios

Given the data and considerations in this report, if Napa County decided to move forward with an augmented minimum wage, growth of that wage depends on the final goal wage. Based on the data and analysis presented throughout this section, a San Francisco-like model of increasing the minimum wage in 5 percent increments annually to the goal wage is the recommended approach. At 5 percent increases annually, the wage grows more slowly but will better balance the local cost of business. At this rate, purchasing power would grow by 2 percent assuming 3 percent general inflation.

For the purpose of comparison, two alternate implementation schedules have been provided. The first increases the minimum wage to $11 per hour in 2017, $12 in 2018 and then 5 percent increments in subsequent years until $15 when it reverts to an increase based on the Consumer Price Index. The second increases to $12 in 2017 and then 5 percent increments in subsequent years until $15 when it reverts to the Consumer Price Index. The risk in implementing Scenario 2 or 3 is the quicker change increases costs quickly at some businesses and profitability will fall sharply rather than allow businesses to plan for the change and adjust slowly and predictably.

This study recommends Scenario 1 or increasing the minimum wage 5 percent per year, with an estimated increase in purchasing power of 2 percent per year on average for minimum wage workers, assuming 3 percent inflation in Napa County. Notice wage growth compounds. Even if seen as 5 percent per year starting in 2017,the total change by 2024 is 47.8 percent from the 2016 state minimum wage of $10 per hour against 27 percent compounded change in the local cost of living if prices change by 3 percent per year on average by 2024. To go faster than that toward $15/hour increases these workers' purchasing power, but exacerbates the costs on households and on businesses. In Table 9, "CPI" represents the path of the minimum wage will follow the CPI percentage change for that year.

Table 9: Wage Schedule for increasing the minimum wage in Napa County, 5 Percent Compounded Growth per year through 2024

Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	$10.00	$10.50	$11.03	$11.58	$12.16	$12.76	$13.40	$14.07	$14.77
2	$10.00	$11.00	$12.00	$12.60	$13.23	$13.89	$14.59	$15.00	CPI
3	$10.00	$12.00	$12.60	$13.23	$13.89	$14.59	$15.00	CPI	CPI

Conclusions

By increasing the minimum wage in Napa County, there are both costs and benefits. The questions are easy to ask, but the answers are multi-faceted and involve almost every employer in Napa County directly or indirectly. The flows of labor between the unincorporated part of Napa County, the incorporated areas, and the surrounding counties confound the costs and benefits for Napa County residents. On the surface, there are more workers than not who will benefit from the increased minimum wage; local businesses will bear the cost of that change from higher wages and more taxes paid at the minimum.

Effect of Change	Positive or Negative
Lost Jobs	-
Gained local spending	+
Supported Jobs due to increased local spending	+
Lost business profits	-
Increased local prices	-
Number of people on fixed incomes affected	-
Net Effects to major Groups in Unincorporated Napa	
Businesses	-
Working Residents that receive new min wage	+
Workers that live elsewhere and receive new min wage	+
Tourists	-
Residents not receiving new minimum wage	-

The elasticity idea is critical and the results are very sensitive. The more responsive a business is to changes in wages, in terms of hiring or keeping workers employed, the more job losses will occur when wages go up. We provide results here based on a low level of responsiveness, and there are slight job gains in net due to the sum of reduced hiring (or reduction of employment) versus gains from more spending by workers. When employer decisions about hiring are three percent more sensitive, the net job change is negative, and the new costs borne by businesses located in Napa County remain.

The number of local employees that also live in Napa County is another factor. This aspect involves the social goal of this policy choice; when local residents are also local workers at a new minimum wage, the policy helps Napa County residents by augmenting incomes. We assume 50 percent of Napa County minimum-wage employees also live in Napa County, as recent data on commute flows suggest this as an approximate level. However, if this level falls, and more inbound commuters fill Napa County's minimum-wage jobs, the gains that offset job losses fall; fewer jobs are supported locally when new incomes from the increased minimum wage are spent in other counties and cities.

Local businesses bear new costs of increasing the minimum wage. These include the costs of compliance when the minimum wage changes locally, new payroll tax liabilities for workers now paid more, and new worker's compensation costs based on the increased payroll figures as a beginning. These new costs do not include the increased wages. The sum of these new costs can lower the profitability of local businesses unless more revenue is generated; we assume no businesses go out of business as a result of these changes directly. Napa County is making a bet that local demand allows some businesses to share the costs with local consumers (including visitors to Napa County) through increasing prices. We assume a lack of immediate wage compression also. If wages across all occupations increase because the lower wage levels are rising and causing pressure on wage levels above, the burdens on local businesses rise more quickly.

Price increases affect local residents. Having a defined wage schedule helps local businesses and residents plan for change. If local prices rise faster than other parts of the region, it is possible that worker purchasing power is reduced throughout the county economy. Households that live on fixed incomes when local prices are rising also experience reduced purchasing power. The households affected span across Napa County, but also depend on household wealth.

Due to both data limitations and assumptions that must be made in order to make any judgments on these effects, policy makers should consider the sensitivity of these results.

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POVERTY DATA

Napa County demographics

This section highlights a range of social and economic factors that contribute to the individual health of our community. Data is provided from the Napa County Comprehensive Community Health Assessment (April 2013) and current Napa County public assistance caseloads. These data reflect the evidence that poverty exists in Napa County. Napa County families and individuals living in poverty struggle to pay for basic necessities like rent, food, childcare, health care, and transportation, and the data often fail to capture the difficult choices and tradeoffs.

Table 1. Napa County poverty status by sex, age, race/ethnicity, living arrangement, educational attainment, and citizenship status

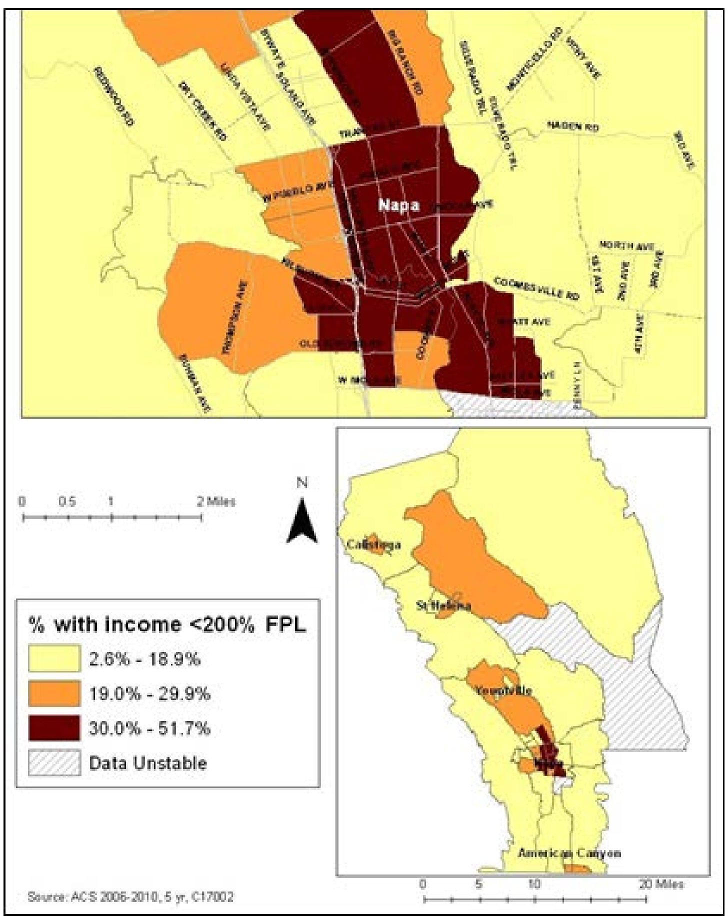
	Total Estimate	**Percent living below the FPL** (estimates that exceed the Napa average are **bold**)
Population for whom poverty status is determined	*130,057*	*10.0%*
Sex		
Male	64,340	9.8%
Female	65,717	**10.1%**
Age		
Under 18 years	30,684	**12.0%**
18 to 64 years	79,716	9.9%
65 years and over	19,657	7.2%
Race/Ethnicity		
Hispanic or Latino origin (of any race)	40,226	**14.1%**
White alone, not Hispanic or Latino	76,119	8.0%
Living Arrangement		
In family households	107,806	8.2%
In married-couple family	84,693	4.9%
In Female householder, no husband present households	14,472	**22.3%**
In other living arrangements*	22,251	**18.4%**
Educational Attainment		
Population 25 years and over**	88,980	8.8%
Less than high school graduate	15,474	**17.1%**
High school graduate (includes equivalency)	18,031	**10.4%**
Some college or associate's degree	28,345	7.7%
Bachelor's degree or higher	27,130	4.2%
Citizenship Status		
Native	100,448	8.8%
Foreign born	29,609	**13.9%**
Naturalized citizen	11,206	7.8%

Source: American Community Survey, 2006-2010, 5 yr, S1703
Note: Data not presented for all race/ethnic groups due large margin of errors (>30%) of estimates
* Other single or non-family households***Educational attainment is assessed on population that is 25 years and over.*

Between 2006 and 2010, 10 percent of Napa residents were living below the federal poverty level (FPL), and 26.4 percent were living below 200 percent FPL.

The following groups of people, which are not mutually exclusive, exhibited higher than average rates of poverty: females, people under 18 years old, Hispanics/Latinos, female householders with no husband present, people in other living arrangements (e.g., single or non-family households), people with a high school degree or less, and foreign born individuals. Table 1 details the poverty status for Napa residents by sex, age, race/ethnicity, living arrangements, educational status, and citizenship status.

The figure below illustrates geographically the percent of individuals earning less than $20,800 a year,[1] or living below 200 percent of the federal poverty level[2]. The areas in red are the census tracts with the highest concentration of people living in poverty. In these census tracts between 30 percent and 52 percent of the population earns below $20,800.[2]



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[1] U.S. Department of Health & Human Services, 2008 Federal Poverty Guidelines, http://aspe.gov/poverty/08poverty.shtml.
[2] The data presented in the maps are organized by geographic regions designated by the Census, also known as a Census tract.

Income below 200 percent FPL comes closer to estimating the true extent of poverty in Napa County as it is double the poverty level ($10,400 for an individual) and comparable to the living wage or self-sufficiency standard for an individual resident of Napa County, which is estimated to be $23,400 annually.[3] Living wage takes into account costs for housing, food, health care, taxes and other living expenses in a region and is thus generally regarded as a better measure of poverty than the federal standard, but in this case living wage and income less than 200% of federal poverty level are very similar.

It should be noted that there is not a standard model for calculating living wage or the self-sufficiency standard. Therefore, available calculators provide different estimates of costs of living in Napa County. The estimates for a living wage cited in this report provide a minimum estimate of the cost of living for low wage individuals and families and do not reflect a middle class standard of living.

Families and children

Approximately 34 percent of Napa County families with children under 18 were living below 200 percent of the FPL between 2006 and 2010.

A family of four is below 200 percent FPL if their annual income is under $42,400.[4] In contrast, the estimated annual living wage for a family with two adults and two children is $46,675 in Napa County. This estimate assumes that one adult in the household provides child care and therefore the cost of child care is not included in the estimate.[5] However, there is a large gap between living wage and 200 percent FPL for single parent households primarily due to the costs of child care.

According to the MIT Calculator, the living wage annual income for a household with one adult and two children is $61,131, but a family of three is considered to be below 200 percent FPL only if they make less than $38,180 per year. This suggests that using a threshold of 200 percent FPL, twice the federal poverty level, still substantially underestimates the financial burdens of single parent households in Napa County.

The map on the next page illustrates the percentage of families living below 200 percent of the federal poverty level (FPL). The City of Calistoga and the City of Napa each had census tracts with higher numbers (39 percent and 54 percent, respectively) of families living below 200 percent FPL; these are shown in red.

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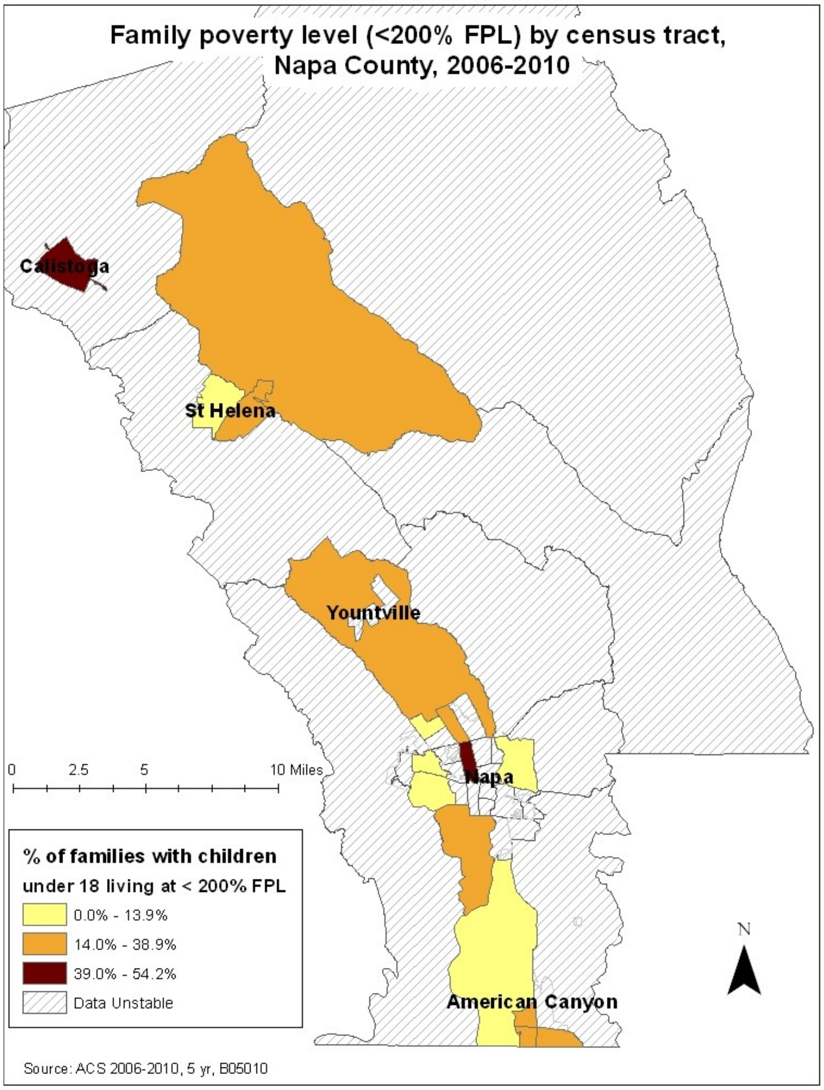
3 Poverty in America Living Wage Calculator, Massachusetts Institute of Technology, http://livingwage.mit.edu.
[4] U.S. Department of Health & Human Services, 2008 Federal Poverty Guidelines, http://aspe.hhs.gov/poverty/08poverty.shtml.
[5] MIT Living Wage Calculator.

Family poverty level by Census tract
Napa County, 2006-2010



Of note, 79.4 percent of students in the Calistoga Joint Unified School District are eligible to receive free or reduced lunch, indicating that nearly 80 percent of the student population had a family income below 185 percent of the federal poverty level.[6]

6 To be eligible to receive free or reduced price meals a child's family income must fall below 130 percent of the federal poverty level ($29,055 for a family of four in 2011) to qualify for free meals, or below 185 percent of the federal poverty guidelines ($41,348 for a family of four in 2011) to qualify for reduced-cost meals.

The chart below details the percentage of students who are eligible for free or reduced price meal by school district. Families living in poverty struggle to pay for basic necessities like rent, food, childcare, health care, and transportation and the data often fail to capture the difficult choices and tradeoffs families endure.

School lunches, Napa County

School District	Percent
Calistoga Joint Unified	79.4%
Howell Mountain Elementary	62.4%
Napa County Office of Education	64.1%
Napa Valley Unified	40.5%
Pope Valley Union Elementary	34.3%
Saint Helena Unified	39.0%

Source: As cited on kidsdata.org, California Dept. of Education, Free/Reduced Price Meals Program & CalWORKs Data Files, http://www.cde.ca.gov/ds/sh/cw/filesafdc.asp (Feb. 2012); U.S. Dept. of Education, NCES Common Core of Data, http://nces.ed.gov/ccd/bat/index.asp (Feb. 2012)

The family income is based on the adult work a $10 per hour job:[7]

SELF-SUFFICIENCY STANDARD			
**Monthly costs for Family of Three*			
EXPENSE TYPE	***MONTHLY COST**		
*Housing	$	1,414.00	
*Child Care	$	1,614.00	*unsubsidized*
*Food	$	596.00	
*Transportation	$	293.00	
Health Care	$	-	*family receives Medi-Cal*
*Miscellaneous	$	434.00	
Taxes	$	205.00	*15% income tax withheld***
	$	**4,556.00**	
INCOME TYPE	**MONTHLY AMOUNT**		
Job Wage	$	1,733.00	*$10.00 Per Hour - gross*
CalWORKs	$	-	*family is not eligible*
CalFresh	$	511.00	*max CF grant****
	$	**2,244.00**	

**based on the data from Insight Center for Economic Development*
***based on the 2015 income tax calculator for $20,800 annual income*
****may vary based upon expenses and deductions*

[7] Data from Insight Center for Economic Development, using one adult, one preschooler, and one school-age child: www.insightcced.or/calculator.html

Napa County Health and Human Services, Self Sufficiency Services Division, provides basic needs for individuals, families and children. This section provides current caseload information and eligibility requirements for the CalWORKs, CalFresh and Medi-Cal Programs.

CalWORKs

The California Work Opportunity and Responsibility to Kids (CalWORKs) program is the California version of the Federal Temporary Assistance to Needy Families program (TANF).

CalWORKs provides time-limited cash benefits to families with children when one or both parents are absent, disabled, deceased or unemployed. Families eligible to CalWORKs program must have minor children in the home who lack the necessary support because of the absence, disability, death or unemployment of one or both parents. In addition to parents, relatives (such as grandparents) who are caring for minor children may also be eligible.

To be eligible for CalWORKs, a family must meet the MBSAC (minimum basic standard of adequate care) which is approximately 63 percent of the FPL ($619.00). The maximum CalWORKs grant is $715 for a family of three (3).

CalFresh

CalFresh is California's version of the federal Supplemental Nutrition Assistance Program (SNAP) that provides assistance for households to purchase nutritious food. The program uses Electronic Benefit Transfer (EBT) to allow recipients to purchase food at retail stores and farmers markets using a plastic debit card. United States citizens and legal permanent residents may be eligible for benefits. A household is eligible to receive benefits if its **net** income is at or below 100 percent FPL which is $20,090. The maximum grant for a family of three (3) is $511.

Medi-Cal

Medi-Cal is California's Medicaid program. This is a public health insurance program which provides needed health care services for low-income individuals including families with children, seniors, persons with disabilities, foster care, pregnant women, and low income people with specific diseases such as tuberculosis, breast cancer or HIV/AIDS. Medi-Cal is financed equally by the State and federal government. Health Care Reform expanded the Medi-Cal program and created Covered California.

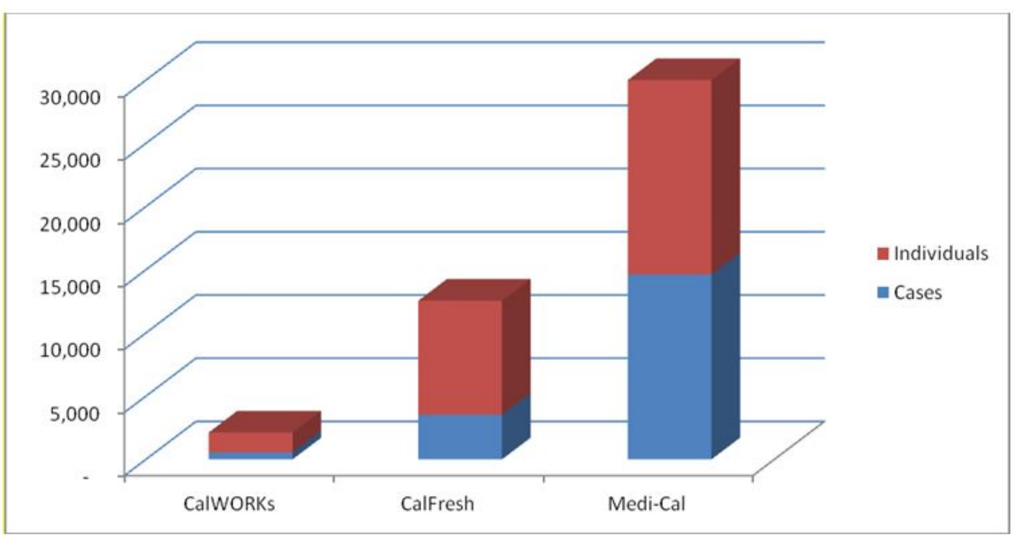
The newest version of Medi-Cal generally covers children from 0-266 percent FPL ($4,454/mo) and adults from 0-138 percent FPL ($$2,311/ mo). There are also special programs for infants up to 322 percent FPL ($5,391/mo) as well as the pre-ACA Medi-Cal programs for everyone. Covered California picks up where Medi-Cal leaves off and goes up to 400 percent FPL ($$6,696/mo). Medi-Cal eligibility is complex and eligibility workers look at both the new Medi-Cal rules and the classic Medi-Cal rules in order to find the best program for the individual. The FPL for this is based on a family of three.

Napa County Program Caseloads - September 2015

The current population for Napa County is 141,677, based on the Census Bureau's 2014 estimate

PROGRAM	CASES*	INDIVIDUALS*
CalWORKs	551	1,578
CalFresh	3,523	9,026
Medi-Cal	14,622	28,620

These are duplicative counts – an individual may receive assistance in all three (3) programs



Conclusion

These data reflect the evidence that improving the overall health of our residents depends on improvements in underlying factors, including meaningful employment, income security, educational opportunities, and an engaged, active community. These factors are in part responsible for the unequal differences in health status within and between communities. While increasing the minimum wage will not solve all these problems, it is a start.

The idea of enacting policies to lift people out of poverty is neither new nor revolutionary. What is new, however, is awareness of the health implications of reducing the extent of economic disadvantage. The following are a few examples of programs designed to improve economic resources for low-income families, particularly those with children. Although none of these programs was designed with health effects as a primary goal, if they are effective in improving economic resources for low-income families, based on the current research, they could have major health effects:

- **Minimum wage laws**: The current federal minimum wage for covered nonexempt is $7.25 representing a level of income that places many families in poverty and $9:00 in California, increasing to $10.00 per hour in 2016.
- **Earned Income Tax Credit (EITC):** the EITC, which refunds federal taxes to low income working families has been show to increase employment and lift 4.4million people – more than half of them children out of poverty. California has adopted an EITC effective with the 2015 tax year which complements the existing federal EITC.
- **Child Tax Credit**: Eligible working families can claim a credit of up to $1,000 for each dependent under 17 years of age.
- **Paid Parental Leave**: Although a 1993 federal mandated that full-time employees of businesses with more than 50 workers be eligible for 12 weeks of unpaid leave following the birth or adoption of a child, workers in small businesses are not covered, and very few states have implemented paid family leave benefits as well.
- **Safety net programs that make income go further**: child care and housing subsidies, supplemental food assistance program (CalFRESH in California, formerly food stamps) WIC, and school nutrition programs and free or subsidized health insurance can help a low income family to more adequately cover the basic necessities.
- **Job training and job creation programs:** Even when jobs are available, low-skilled workers often cannot escape poverty. Many experts have called for greater investment in human

- capital – for example, training, education, substance abuse and mental health services, help with child and elder care responsibilities that conflict with work, and minimum wage legislation, to help workers achieve a living wage and become fully functional member of the workforce.

- **High-quality early child development programs**, accompanied by services for families, have been repeatedly demonstrated to lead to higher educational attainment, which is crucial for escaping poverty.

SURVEY OF LOCAL MINIMUM WAGE ORDINANCES

Top minimum wage

The highest municipal minimum wage adopted thus far in major U.S. cities is $15 per hour. It has been passed in dense urban areas that have high costs of living. On January 1, 2018, San Francisco will be the first U.S. city to implement the $15 per hour rate.

In 2004, San Francisco became the first major city in the United States to pass a local a minimum wage law above the state minimum wage. The rate was set at $8.50 per hour and pegged to inflation. The city, however, passed a new ordinance in 2014, after elected officials and residents determined the 2004 base rate had been set too low and was not keeping pace with the city's increasingly high cost of living.

The City of Los Angeles in September 2014 passed a minimum wage ordinance higher than $15, but the rate applied only to the hospitality sector. Starting on July 1, 2015, hotels with 300 or more rooms began paying workers $15.37 per hour. That same wage went into effect in 2016 for hotels with 125 to 299 rooms. The wages are then tied to the CPI thereafter.

California

There are 16 California jurisdictions that have recently passed minimum wage laws.

Los Angeles city and San Diego have had their ordinances suspended by groups that have gathered the requisite signatures to put those laws to a public vote on the June 2016 ballot. The University of California has also implemented a minimum wage increase for its workers. More and more California jurisdictions are looking at a local minimum wage ordinance.

Only two counties thus far have passed minimum wage ordinances, San Francisco and Los Angeles. San Francisco is both a city and a county. That leaves Los Angeles County as the only local jurisdiction in California that has ventured to pass a minimum wage law that can only cover its unincorporated area and not the 88 incorporated municipalities within its borders.

Below is a chart of California local minimum wage laws from highest to lowest step.

Jurisdiction	Highest step	Date effective
El Cerrito	$15	1/1/2020
Emeryville	$15	7/1/2018
Los Angeles - County	$15	7/1/2020
Los Angeles - City	$15	7/1/2022
San Francisco	$15	1/1/2018
Santa Monica	$15	1/1/2020
University of Cal	$15	1/1/2017
Richmond	$13	1/1/2018
Berkeley	$12.53	10/1/2016
Sacramento – City	$12.50	1/1/2017
Oakland	$12.25	3/2/2015
San Diego – City	$11.50	1/1/2017
Palo Alto	$11	1/1/2017
Santa Clara - City	$11	1/1/2017
Mountain View	$10.30	7/1/2015
Sunnyvale	$10.30	1/1/2015
San Jose	$10	3/11/2013

Minimum wage schedule

Most cities have adopted schedules that phase in their minimum wage increases, usually in $1 increments per year. Some cities have two or more schedules to accommodate certain segments of their respective local economies.

Jurisdictions may want to adopt different schedules for smaller businesses and nonprofit organizations that have fewer workers and generally don't have the resources to cushion the impact of a wage increase. It also gives these groups more time to plan ways to increase their revenue stream to meet the new wage floor.

Jurisdictions may also allow a lower or "intermediate" wage for a certain group of employers to provide them incentive to hire a certain segment of the population, such as younger or apprentice workers. An intermediate wage is the mid-way point between the state minimum wage and the local minimum wage.

Small businesses and nonprofits

Emeryville has a large number of start-ups and smaller businesses within its one-square-mile border. The city council, therefore, designed its minimum wage schedule to give smaller businesses more time to acclimate. On July 1, 2015, business with 55 or fewer workers will be required to pay a $12.25 per hour, while businesses with more than 55 workers must pay $14.44 per hour. By 2019, all businesses will be at $15, and the following year, that rate will be tied to the CPI thereafter.

The City and County of Los Angeles both give businesses with fewer than 26 workers more time to acclimate to an increased minimum wage. These smaller businesses will gradually reach the $15 plateau by July 1, 2021, while business with more workers must meet that goal one year earlier. The city also included nonprofit organizations in the small business group to give them more time to adjust to the wage schedule.

Berkeley delayed its minimum wage increase one year for nonprofit groups to help them ease into the change.

Sunnyvale exempted all nonprofit organizations from its minimum wage ordinance. The city requires businesses within city limits to obtain a business license. Any entity that obtains a business license must pay the city's minimum wage. Nonprofits are not required by the city to obtain a business license, therefore they are exempt.

San Francisco does not exempt nonprofit groups from its minimum wage ordinance, but it set a lower rate schedule for older workers employed by these groups. On May 1, 2015, nonprofits were required to pay $12.25 per hour to their workers who are over age 55, with the rate pegged yearly to inflation beginning on July 1, 2016.

San Jose offers nonprofits the right to apply for a business tax exemption, and City of Los Angeles offers a minimum wage waiver for certain nonprofits.

Enforcement

California local minimum wage ordinances are brand new. With the exception of San Francisco's 2004 law and San Jose's 2012 law, all current ordinances have either been implemented in the past year or have not yet gone into effect. This leaves a scant body of knowledge as to the most effective methods of enforcement.

Staff discussed the enforcement issue at length with all local minimum wage jurisdictions. Some jurisdictions advised making available as many tools to staff as possible to ensure proper enforcement. Most jurisdictions, however, have not implemented enforcement tools beyond those already used in general code enforcement violations. This complaint-driven process involves issuing a citation, warning and fines. In extreme cases, civil action becomes necessary. There are penalties of fines and imprisonment, but they are rarely used because most cases are settled early in the process.

The more extreme tools suggested by minimum wage enforcement officers include the authority to suspend permits of violating businesses that effectively shut them down if they do not comply.

San Francisco has been enforcing a local minimum wage law for more than 10 years. There are lessons to be learned from this major city, but they are not as applicable to a rural area such as Napa County.

San Francisco has received a total of 780 minimum wage complaints since 2004. Most of the complaints have come from restaurant workers who claim wage theft by employers. The city has been able to get good compliance with recalcitrant restaurants, according to Joshua Pastreich, San Francisco's supervising compliance officer for the Office of Labor Standards Enforcement. The city's ordinance, he said, allows staff to pull a restaurant's health license for refusing to remunerate an employee for wage theft or the firing of an employee for filing a wage theft complaint. Without a health license, a restaurant cannot serve food and is effectively shut down.

San Francisco has funded its compliance office sufficiently so it has the capacity to conduct frequent site visits and investigate violations. The city stresses the importance of hiring multi-lingual staff because of the high number of migrant workers from different countries. These workers more easily find work in a restaurant that serves food from their native country and likely has an owner and workers who speak the native language. Many of these restaurants, however, hire undocumented workers and do not scrupulously account for all wages paid. Pastreich said his office conducts surprise visits to establishments to get an accurate gauge of the restaurant's accounting. Otherwise, such practices as paying workers under the table are often hidden by restaurant owners and managers. Often, no wage documentation is found, other than a work schedule drawn in pencil on the wall.

Staff from several other city jurisdictions strongly suggested a county, such as Napa, that passes a minimum ordinance should explore the suspension of use permits or other permits to encourage minimum wage compliance. "You don't want to have to use it, but you want to have it there in case a business does not want to comply," was a common refrain from enforcement officers.

San Jose has been a leader on the minimum wage issue, passing its law in 2012. It used San Francisco's 2004 minimum wage ordinance to craft its own law. To enforce its local wage ordinance the city created the Office of Equality Assurance. The office has contracts with the nearby cities of Mountain View and Sunnyvale to enforce their respective local minimum wage ordinances. Christopher Hickey, the office's contract complaints coordinator, said he fields about three minimum wage complaints a month. In the first three months of the first wage increase, there were lots of calls and complaints, Hickey said. Then a six-month break. The complaints would gear up again in anticipation of the next January CPI increase.

San Jose office has received 49 complaints thus far. Businesses are not fined for their first violation and receive only a warning. All complaints have been settled before secondary warnings were issued, Hickey said.

The cities of Oakland and San Diego have large enough existing code enforcement offices to subsume the duties of minimum wage enforcement. Los Angeles city created the Wage Enforcement Division of Bureau and Contract Administration with its Department of Public Works to administer its wage ordinance. Berkeley assigned its minimum wage enforcement duties to its department of Health, Housing and Community Services.

Emeryville, Palo Alto, Santa Clara city have assigned enforcement to their respective city manager's office, who may designate a city department to take over enforcement. Richmond has assigned one worker in its Employment and Training Department to oversee the city's minimum wage compliance.

Outside contractors

Local jurisdictions that pass a minimum wage usually neighbor a jurisdiction that does not have such an ordinance, or its neighbor may have an ordinance with a different wage schedule and exemptions.

The question then arises whether a worker is bound by a city's minimum wage ordinance if that worker is employed by a business located in another jurisdiction.

All local jurisdictions contacted maintained that any employee earning wages within the city's border, regardless of where their employer is located, is bound by the higher wage of the city's ordinance. San Jose is the only jurisdiction that has inserted language concerning outside workers. The city enforces its wage ordinance on outside businesses, but also has an exemption for business located outside city boundaries that are also exempt from San Jose's business tax, such as national banking associations and insurance companies.

It should be noted that San Francisco's minimum wage since 2004 requires outside businesses to pay San Francisco wages to their workers who work in San Francisco. Since that time, no court has threatened to overturn that provision of the city's ordinance.

Unincorporated areas and incorporated areas

Los Angeles County is the only unincorporated jurisdiction thus far to pass a minimum wage ordinance. The final language is schedule to be finalized in September 2015.

The Los Angeles Board of Supervisors voted 3-2 to implement a minimum wage ordinance. There was major opposition by business and restaurant groups. One of the issues discussed was how to enforce the ordinance when LA County has 88 incorporated cities within its borders that are not bound by the county's wage law. The three supervisors voting in favor are in the process of working with the cities in their districts to adopt the county's minimum wage or use a template that is similar. The two supervisors voting against the ordinance have refused to participate.

San Jose encountered a unincorporated-incorporated problem with its minimum wage law that shows that potential difficulties of a neighboring jurisdiction that does not have a local wage law.

There is a very large shopping mall that straddles the boundary of San Jose and Santa Clara County. Nearly half the mall is in the city and half is in the unincorporated area. City staff conducted a GIS survey to determine exactly which stores in the mall were within Sam Jose's boundaries and were thus subject to the city's minimum wage ordinance. A problem arose because the Gap store not only straddled the jurisdictional boundary, but its cash register on the second floor of the store was within the county's boundary and the first floor cash register was in San Jose. The problem was resolved when the Gap agreed to pay all workers the San Jose wage. San Jose enforcement staff said they were lucky to avoid what could have been an "enforcement nightmare."

First-time workers, student workers, apprenticeships

One of the major criticisms opponents have against a minimum wage law is that it pushes out first time job seekers who have little or no work experience. It is critical that teens and other population sectors have a chance to enter the workforce and acquire skills and experience. Employers, critics say, may shy away from hiring younger, inexperienced workers when they have to pay the same rate for experienced workers.

The California Labor code includes a minimum wage exemption for student workers and camp counselors to help them attain employment. The state allows employers to pay these workers 85 percent of the state minimum wage. The state code also allows employers to pay lower wages to apprentice learners and mentally or physically disabled workers.

Berkeley exempts workers up to 25 years of age if they are employed in a program operated by a nonprofit or government agency. Every summer, the city hires about 400 people ages 15 to 25 years to work as interns and various support staff positions. Nathan Dahl, Berkeley's community development project coordinator in charge of its minimum wage ordinance, said the city placed a high importance on young people gaining public sector experience and possible employment with the city in the future.

San Francisco implemented a different rate schedule for workers under 18 who are employed in after school or summer programs funded by the government. The rate for these young workers is $12.25 per hour beginning May 1, 2015, and pegged to inflation on July 1, 2016.

Richmond provides several exemptions in its ordinance for younger workers. Youths ages 15 to 21 years, for example, are exempt if they are employed through the YouthWORKS summer program.

Recovering substance abusers or parolees re-entering workforce

Citizens who have served prison time or are recovering from substance addiction often have a difficult time re-entering the workforce. These citizens can be exempted or paid at a different rate schedule for a certain period in an effort to help them transition into a steady work life and a better lifestyle. Richmond, for example, allows an exemption to employers who hire those who receive 50 percent or more of their income from government grants or other social assistance programs.

Tipped workers

Staff consulted every local jurisdiction in California that has passed a minimum wage ordinance. Restaurant owners were the main opposition group in every effort. A jurisdiction's chamber of commerce or other business association were often vocal opponents as well.

Staff experienced similar concern from restaurant owners in July 2015 when meeting with the Napa Chamber of Commerce and the Napa Downtown Association. Restaurateurs maintained they were basically in favor of a local minimum wage, but only for the "back of the house" workers, such as dish washers and other lower paid support staff. They maintained that the earnings of tipped workers already averaged far above $15 per hour of work. One owner stated that his bartender earned over $100,000 per year. One must remember, however, that there are a range of tipped workers in Napa County. A wait person working at an upscale eatery or luxury resort will not be earning the same amount in tips as a wait person working a downscale breakfast or lunch counter.

The obvious solution is to institute a tip credit for restaurant owners similar to the tip credit allowed in the federal minimum wage law. The federal tip credit allows a restaurant owner to credit, or count, the tips of a waiter or bartender and combine it with the $2.13 per hour federal minimum wage that tipped workers receive. If the total is below the $7.25 per hour federal rate for all other non-tipped workers, then the restaurant owner must pay the tipped worker the difference. If the average is above $7.25, the owner does not have to pay anything. So, if a Napa County bartender is making $100,000 per year, which averages at $48 per hour for a 2,080 hour work year (higher, if the worker works fewer hours), then restaurant owners would likely not object to a minimum wage ordinance that was $15 per hour or higher, since it would not cost them anything.

The problem is that the state's minimum wage law appears to forbid the tip credit. All workers, whether tipped employers or not, must receive the state's minimum wage—currently $9 and increasing to $10 on January 1, 2016. There is no special rate for tipped workers, as in the federal law.

Section 351 of the California Labor Code governs tips and gratuities under the state's minimum wage law.

> SECTION 351. No employer or agent shall collect, take, or receive any gratuity or a part thereof that is paid, given to, or left for an employee by a patron, or deduct any amount from wages due an employee on account of a gratuity, or require an employee to credit the amount, or any part thereof, of a gratuity against and as a part of the wages due the employee from the employer. Every gratuity is hereby declared to be the sole property of the employee or employees to whom it was paid, given, or left for. . . .

Section 351 makes no mention of municipal or local minimum wage ordinances. There are some jurisdictions that believe Section 351 allows a local tip credit and others that believe it does not. All jurisdictions contacted by staff, however, seem to be in agreement that they do not want to be the first to take a chance on instituting a tip credit and risk legal action from labor groups.

The City Attorney's Office of San Diego undertook a study of Section 351, as the city council wrestled with crafting its minimum wage ordinance in the summer of 2014. In the memorandum of the study (see attachment #xxx), San Diego City Attorney Jan Goldsmith opines that the legality of whether a local government may institute a tip credit depends on how a specific court or justice may interpret the statute: "Interpreted narrowly, Section 351 prohibits an employer from using a tip credit to subsidize an employee's state-mandated minimum wage," Goldsmith writes. "Interpreted broadly, Section 351 generally prohibits any action that results in the same 'evil' as a tip credit." In other words, Section 351's ban on a tip credit may apply only to the state law and not a municipal law—or it may ban the general practice of a tip credit for any minimum wage ordinance within the state.

Goldsmith concludes that Section 351 "likely" prohibits a local jurisdiction from instituting a tip credit provision in a minimum wage ordinance. He then adds, "However, beyond a tip credit, it is unclear whether Section 351 prohibits other alternatives, such as a two-tiered minimum wage ordinance, total compensation model, or exemption for tipped employees. This is likely the reason that all minimum wage jurisdictions thus far have not addressed any of these issues in their ordinances.

So far, all jurisdictions have bypassed the tip credit issue. They have taken a broader approach that either includes or exempts restaurants altogether. Despite the protests from restaurateurs, many of them quite persistent, all jurisdictions thus far included restaurants in their ordinances to pay the local minimum wage.

Staff contacted the California Restaurant Association (CRA) to see if there were a compromise that could help "back-of-the-house" restaurant workers without having restaurant owners paying a higher wage to wait staff who already make well over the minimum wage, including tips.

Matthew Sutton, CRA's vice president of government affairs and public policy, said the CRA supports a "total compensation" model where employees whose total taxable and verifiable compensation is greater than the proposed local minimum wage would not receive the local city or county minimum wage increase. This proposal would use the state minimum wage as the earnings floor, plus other taxable and employer-verified income as defined by the State of California. It would not be a "tip credit" or "sub-minimum wage." Sutton says the CRA is suggesting a minimum guarantee of $15.00 in total hourly compensation for those tipped workers who would not qualify for the local minimum wage increase under this model. According to Sutton, incorporating this solution would allow the restaurant industry to use their finite labor dollars to benefit those employees who are bringing home a salary based on wages alone and are most in need of additional compensation.

The CRA believes this solution is not a "work-around" for Section 351, but an entirely new way of approaching tipped workers to achieve wage parity in restaurants and helping to increase the wages of those who need it most.

Health care credit

Richmond is the only California jurisdiction thus far that has granted employers a medical credit against its new minimum wage. If an employer contributes at least $1.50 per hour worked toward a worker's medical benefits, that amount may be deducted from the mandated local minimum wage, which will reach $13 in 2018 and pegged to inflation the year after. According to Gina Baker, the city's contract compliance specialist, the city decided on the credit to align it with a similar provision in the city's living wage policy that applies to private enterprises that perform work for the city.

CONCLUSION

Napa's unique micro-economy benefits from its wine tourism industry and its proximity to San Francisco and the entire Bay Area. It is poised to absorb a minimum wage increase better than most California jurisdictions.

Homebuyers and renters pay top prices in this popular area that is a destination for millions of tourists each year. As prices continue to increase, many citizens working 40 hours or more in low paying jobs are slipping further into poverty.

Staff consulted with minimum wage experts and contracted with Dr. Robert Eyler to conduct an economic study that would ascertain an appropriate minimum wage schedule for Napa County.

Dr. Eyler's research provides us with three scenarios for a Napa minimum wage schedule:

Wage Schedule for increasing the minimum wage in Napa County,
5 Percent Compounded Growth per year through 2024

Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	$10.00	$10.50	$11.03	$11.58	$12.16	$12.76	$13.40	$14.07	$14.77
2	$10.00	$11.00	$12.00	$12.60	$13.23	$13.89	$14.59	$15.00	CPI
3	$10.00	$12.00	$12.60	$13.23	$13.89	$14.59	$15.00	CPI	CPI

Dr. Eyler recommends Scenario 1, which increases the current state minimum wage of $10 per hour by 5 percent annually until reaching $14.77 in 2024, then tied to inflation thereafter. It is a slower, gradual approach that Dr. Eyler believes will provide a real income benefit to workers by outpacing yearly inflation of about 3 percent per year. It will also lessen the shock to businesses required to pay higher wages.

Staff, however, believes Napa County's economy could accommodate Dr. Eyler's Scenario 2, which would result in an increase to the minimum wage of $15 in 2023. In order to minimize the immediate impacts to the local business community, staff is proposing that the increase in the rate to $12 per hour rate be phased in over two years. From that point on, the wage would follow Dr. Eyler's prescription of a 5 percent yearly increase until it reaches $15 in 2023. Staff believes Scenario 2 will provide a bigger boost for workers while allowing an extra year for businesses to plan ahead and adapt to the wage increases.