



October 23, 2018

City Council Members of the City of Saint Paul

*Sent Via Email Only*

*Contact-Council@ci.stpaul.mn.us*

**SUBJECT: SPACC Position: Minimum Wage Ordinance**

Raising the minimum wage is a complicated issue. The Saint Paul Area Chamber of Commerce shares the desire to help reduce poverty in our city. We also want to get this ordinance, only one step in this direction, “as right as possible,” with specific consideration for sectors within the community most vulnerable to imposed cost increases.

Indeed, it is a fact that a patchwork of different wages across the state is complicated for employers to navigate. Many workers see that complication as minor, in comparison to the broader issue of low income and its accompanying challenges. That said, any public policy that makes it harder to do business in Saint Paul puts good jobs – all jobs - in jeopardy.

The Saint Paul Area Chamber of Commerce supports the implementation of a Minimum Wage Ordinance in its draft form as published on Thursday, October 11, 2018, with the following modifications:

1. The City provide an Administrative Ordinance to ensure funding mechanisms are identified, with emphases on business education, implementation assistance, and enforcement.
2. Sec. 224.01 Definitions of Business Size: we request the City adjust the business size:
  - a. Large Business = 250 employees  
*Draft ordinance currently reads “more than 100 persons”  
Seattle ordinance sets this at 500+ employees*
  - b. Small Business = 25-249 employees  
*Draft ordinance currently reads “100 or fewer persons”  
Seattle ordinance sets this at 25-499 employees*
  - c. Micro business = fewer than 25 employees  
*Draft ordinance currently reads “5 or fewer persons”  
Seattle ordinance sets this at 24 or fewer employees*

Data breakdown, Number of Employees by Business Size (for Ramsey County):

Companies with under 10 employees: 38,823 people  
Companies with 10 - 49 employees: 25,765 people  
Companies with 50 - 99 employees: 40,602 people  
Companies with 100 - 499 employees: 28,845 people  
Companies with 500 - 999 employees: 26,654 people  
Companies with 1000+ employees: 82,567 people

3. Sec. 224.02(b): Employment in Saint Paul

- a. “An employee who is typically based outside the city and performs work in the city on an occasional basis is covered by this article if the employee over the course of one year performs at least one (1) hour of work for an employer within the geographic boundaries of the city.”

Many companies located outside of Saint Paul perform work in the community that takes them into Saint Paul, for whom such a definition would be disastrous. Think residential plumbers, teachers taking students to a museum, home health care providers taking clients to a medical appointment, personal care assistants escorting a group to a Saints game. They simply would take their business elsewhere. With that in mind, we propose this paragraph be amended to apply if “the employee over the course of two weeks performs **at least eight (8) hours of work...**”

4. Sec. 224.03: City Minimum Wage, Slope of Increase

- a. To smooth out the transition to a higher minimum wage, we request that the slope of that transition be more even.

Details of our proposal are laid out in Attachment 2.

5. Sec. 224.04(a): Gratuities

- a. Request for tip adjustment consideration.
- b. Alternate consideration: longer timeline for establishments with tipped employees.
- c. Detailed suggestions are laid out in Attachment 1.

6. Sec. 224.04(b): Adjustments to City Minimum Wage, Youth Training Wage

- a. The current draft ordinance allows for youth training wage for 90 days. We ask that such a youth wage be extended to a full year, twelve (12) months.

7. Sec. 224.05: Determination of Business Size, Franchisees

- a. Sec 224.05(d), “where the ~~franchisor and~~ franchisees of such franchisor own or operate an aggregate of more than ten (10) locations nationally shall be considered a large business.” Our intent is to ensure small franchisees’ count for locations are not added to the franchisors’ count, when they are independently owned.
- b. Sec 224.05(e), “each full service restaurant location within the geographic boundaries of the city and with ~~fewer than~~ ten (10) **or fewer** locations nationally shall be treated as a unique employer solely for the purposes of determining business size.” Our intent is to ensure (d) and (e) work together in reference to business size.

What we know:

- Our city should do everything it can to compete for economic development opportunities and new jobs.
- SPACC provided input to Phase I of the Citizens League scoping project, and co-chaired the Phase 2 Minimum Wage Study Panel in May – August 2018.
- Implementation of such an ordinance brings costs to the employer that need to be considered. If payroll becomes so expensive that businesses cannot afford to pay their workers, the impact will be as “limited” as fewer hours/less income/reduced benefits for the employees we are attempting to benefit, or as tragic as having to leave Saint Paul/go out of business.
- One specific consideration: many if not most small businesses file as Sole Proprietorships or S-Corporations, which means that all profits and losses are paid on the owner’s personal tax return. Externally imposed cost increases directly affect the owner’s personal finances.
- Implementation of such an ordinance brings costs to the City itself that most certainly will impact future budgets and taxes, particularly around implementation, monitoring, and enforcement:
  - Annual implementation/enforcement costs.
    - As an example, Seattle has a population of approximately 724,000 and an estimated annual budget of \$5.9 billion
    - Seattle’s annual implementation/enforcement budget is \$8 million.
    - Saint Paul has a population of approximately 306,000 and a proposed budget for 2019 of \$606 million.
    - Based on budget, and a direct ratio of costs to revenue, we would anticipate that Saint Paul needs to budget \$800,000 annually towards this work.

- Alternately, based on population, and a direct ratio of costs to residents, we would anticipate that Saint Paul needs to budget \$4 million annually towards this work.
  - The cost to the City for its own employees who earn below \$15 today. The draft ordinance proposes that the City will lead the phase-in citywide with its own employees through a 3-year period starting January 1, 2020, and reaching a \$15 minimum wage starting July 1, 2022. So the speed of budgetary impacts will be increased.
- The direct link between increased wages and the direct benefit to Saint Paul residents who are low wage earners cannot be assured. Today, approximately 25,000 Saint Paul residents earn below \$1250 per month. Of those, 8000 also work in Saint Paul. Increased wages most certainly will bring in employees from neighboring cities, perhaps those with more access to transportation. Employers, of course, have no incentive to hire residents from any particular community.
- As demonstrated by the Childrens Defense Fund, low-income workers also face challenges balancing increased wages with subsequent decreases in public assistance benefits. This potentially leads to workers who self-limit hours in order to retain benefits.
- There are consequences we know about, and some we don't, which is why we continue to support a thorough, measured, and inclusive conversation about the problems that increasing minimum wage tries to solve.

BLK

Attachments:       1. Tip Adjustment Options  
                          2. Adjusted Slope of Increase  
                          3. Seattle's Minimum Wage

## Attachment 1: Tip Adjustment Options

1. Option 1: Exemption for Tipped Employees and \$15/hour by Jan 1, 2021
  - a. Supported by Minnesota Restaurant Association (representing 2000 establishments within Minnesota), Minnesota Licensed Beverage Association (representing 480 businesses), and drafted in conjunction with owners representing more than 10 full service restaurants and servers in Saint Paul.
  - b. All restaurants/bars/nightclubs with over 25 employees who have tipped staff members shall pay a \$15 minimum wage for all employees beginning January 1, 2021.
  - c. All tipped employees in these establishments are paid at the current state minimum wage with employers guaranteeing a minimum wage, after including tips, of \$15 per hour.
  - d. Tipped employee definition – define “qualifying tipped employee” to mean an employee who regularly receives income from wages plus tips at a rate equal to at least 150% of the minimum wage.”  
*Draft ordinance does not include this definition*
2. Option 2: Opt-In Exemption for Tipped Employees By Application
  - a. Supported by Minnesota Restaurant Association (representing 2000 establishments within Minnesota), also proposed by Minnesota Licensed Beverage Association.
  - b. Establishments in Saint Paul that want to employ a tip adjustment shall apply for exemption for servers and bartenders by application to the Saint Paul Planning and Economic Development Department.
  - c. A fee can be applied to cover the cost of labor to enact this exemption.
  - d. The criteria could be: “must be a full service restaurant or bar, must have no penalty or violations against labor laws, and can be for servers and bartenders only.”
  - e. Could also include proof of average tips and guarantee \$15/hour with tips. This can be calculated on a bi-weekly basis for simplicity in payroll calculations.
3. Option 3: Extended Term
  - a. Should any form of a tip adjustment be unacceptable, we propose that restaurants/bars/nightclubs be afforded the implementation timeline being proposed for Micro-Businesses: \$15/hour by January 1, 2029.

**Attachment 2:  
Additional Considerations: Slope of Increase**

Micro Business (24 or fewer employees) = not currently defined by state law  
 Small Business (gross revenues of less than \$500K) Current Minimum Wage \$7.87  
 Large Business (gross revenues of \$500K or more) Current Minimum Wage \$9.65

**Draft Ordinance:  
Saint Paul Proposed \$15 Minimum Wage**

	Micro (5 or fewer employees)	\$ increase	% increase	Small Business (100 or fewer employees)	\$ increase	% increase	Large Business* (101 or more employees)	\$ increase	% increase
2020	\$ 10.25	\$ 2.38	30.2%	\$ 10.50	\$ 2.63	33.4%	\$ 11.50	\$ 1.85	19.2%
2021	\$ 10.75	\$ 0.50	4.9%	\$ 11.25	\$ 0.75	7.1%	\$ 12.50	\$ 1.00	8.7%
2022	\$ 11.25	\$ 0.50	4.7%	\$ 12.00	\$ 0.75	6.7%	\$ 13.50	\$ 1.00	8.0%
2023	\$ 12.00	\$ 0.75	6.7%	\$ 13.00	\$ 1.00	8.3%	<b>\$ 15.00</b>	\$ 1.50	11.1%
2024	\$ 12.75	\$ 0.75	6.3%	\$ 14.25	\$ 1.25	9.6%	<b>Total increase:</b>	<b>\$ 5.35</b>	<b>55.4%</b>
2025	\$ 13.50	\$ 0.75	5.9%	\$ 14.50	\$ 0.25	1.8%			
2026	\$ 14.25	\$ 0.75	5.6%	<b>\$ 15.00</b>	\$ 0.50	3.4%	<b>Total increase:</b>	<b>\$ 7.13</b>	<b>90.6%</b>
2027	<b>\$ 15.00</b>	\$ 0.75	5.3%	<b>Total increase:</b>	<b>\$ 7.13</b>	<b>90.6%</b>			
	<b>\$ 15.00</b>	<b>\$ 7.13</b>	<b>90.6%</b>						

\*assume these companies are at \$9.65 minimum wage in 2018

**Draft Ordinance:  
Saint Paul Proposed \$15 Minimum  
Wage**

	All Saint Paul City Employees
2020	\$ 12.50
2022	<b>\$ 15.00</b>

## Additional Considerations: Slope of Increase Continued

### For Consideration: Adjusted Slope

	Micro (24 or fewer employees)	\$ increase	% increase	Small Business* (25-249 employees)	\$ increase	% increase*	Large Business* (250 or more employees)	\$ increase	% increase
2020	\$ 8.50	\$ 0.63	8.0%	\$ 10.50	\$ 0.85	8.8%	\$ 12.00	\$ 2.35	24.4%
2021	\$ 9.25	\$ 0.75	8.8%	\$ 11.25	\$ 0.75	7.1%	\$ 13.00	\$ 1.00	8.3%
2022	\$ 10.00	\$ 0.75	8.1%	\$ 12.00	\$ 0.75	6.7%	\$ 14.00	\$ 1.00	7.7%
2023	\$ 10.75	\$ 0.75	7.5%	\$ 12.75	\$ 0.75	6.3%	<b>\$ 15.00</b>	\$ 1.00	7.1%
2024	\$ 11.50	\$ 0.75	7.0%	\$ 13.50	\$ 0.75	5.9%	<b>Total increase:</b>	<b>\$ 5.35</b>	<b>55.4%</b>
2025	\$ 12.25	\$ 0.75	6.5%	\$ 14.25	\$ 0.75	5.6%			
2026	\$ 13.00	\$ 0.75	6.1%	<b>\$ 15.00</b>	\$ 0.75	5.3%			
2027	\$ 13.75	\$ 0.75	5.8%	<b>Total increase:</b>	<b>\$ 5.35</b>	<b>55.4%</b>			
2028	\$ 14.50	\$ 0.75	5.5%						
2029	\$ 15.00	\$ 0.50	3.4%						
<b>Total increase:</b>		<b>\$ 7.13</b>	<b>90.6%</b>						

\*assume these companies are at \$9.65 minimum wage in 2018

### Minnesota State Minimum Wage Projections (assuming 2.5% annual inflation)

	Small Business (gross revenue of less than \$500K)	% increase	Large Business (gross revenue of \$500K or more)	% increase
2018*	\$ 7.87	1.5%	\$ 9.65	1.6%
2019*	\$ 8.04	2.2%	\$ 9.86	2.2%
2020**	\$ 8.21	2.1%	\$ 10.00	1.4%
2021**	\$ 8.42	2.5%	\$ 10.25	2.5%
2022**	\$ 8.63	2.5%	\$ 10.51	2.5%
2023**	\$ 8.84	2.5%	\$ 10.77	2.5%
2024**	\$ 9.06	2.5%	\$ 11.04	2.5%
2025**	\$ 9.29	2.5%	\$ 11.31	2.5%
2026**	\$ 9.52	2.5%	\$ 11.60	2.5%
2027**	\$ 9.76	2.5%	\$ 11.89	2.5%
<b>2018-2027:</b>	<b>\$ 9.76</b>	<b>24.0%</b>	<b>\$ 11.89</b>	<b>23.2%</b>

\* Adjustment to inflation

\*\* Estimated adjustment to inflation: 2.5%





Attachment 3:

# Seattle's Minimum Wage

	<b>Small Employers</b> (500 or Fewer Employees)		<b>Large Employers</b> (501 or More Employees)	
	Does the employer pay towards the individual employee's medical benefits and/or does the employee earn tips?		Does the employer pay towards the individual employee's medical benefits?	
	YES	NO	YES	NO
2015	\$10.00	\$11.00	\$11.00	\$11.00
2016	\$10.50	\$12.00	\$12.50	\$13.00
2017	\$11.00	\$13.00	\$13.50	<b>\$15.00</b>
2018	\$11.50	\$14.00	<b>\$15.00</b>	
2019	\$12.00	<b>\$15.00</b>		
2020	\$13.50			
2021	<b>\$15.00</b>			

\* After the minimum wage reaches \$15.00/hour, it will be adjusted each year on January 1, based on the Consumer Price Index for the Seattle Tacoma Bremerton Area