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Special Report

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# Proposition 1 and the "Living Wage Movement" in SeaTac: Increasing Unemployment, Decreasing Opportunity

## Executive Summary

In November SeaTac voters will decide the fate of a multi-faceted living wage law. For certain hospitality, transportation and airport workers, Proposition 1 would establish a $15 an hour minimum wage and paid sick leave benefits, and it would impose restrictions on employers' labor practices. (Ordinance)

In this report, we review the elements of Prop. 1 and consider the economic effects on the residents, businesses and city government in SeaTac. In this summary, we highlight five principle findings.

1. **Approximately 5 percent of low wage jobs will be lost. Another 5-10 percent of affected workers will be replaced by more experienced and educated employees.**

Economic research finds that a 50 percent increase in the minimum wage for a broad range of low-wage workers will lead to a decline in overall employment among the affected group of nearly 3 percent. The proposed $15 wage for SeaTac hospitality and transportation workers is a 63 percent increase from the current minimum wage. We estimate that the magnitude of the proposed increase will cause employment to fall by 5 percent. Interviews with affected employers confirm that there will be immediate strategy changes to reduce personnel (e.g., automating tasks currently performed by parking lot cashiers, more self-service or buffet options at restaurants, and reducing the size of operations).

In addition, the jobs that remain will now pay premium wages in a regional labor market. Labor market and economic research finds that as the wage base increases, the lowest skilled and least experienced workers will be the first to lose their jobs. SeaTac transportation and hospitality employers currently hire many young, inexperienced, and non-English-speaking employees. At the higher wage level, employers will have the ability to hire more experienced staff. Many will choose to do so. We estimate 5 to 10 percent of the employees at the lower compensation tier will lose their jobs as a result.

2. **Businesses not subject to Prop. 1 will feel pressure to increase compensation.**

Although Prop. 1 does not cover small restaurants, retailers, or hotels, the mandated benefit levels create an upward push on wages in the community. While precise effects cannot be estimated, these employers will have many of the same incentives to reduce their payrolls as do the larger firms targeted by the measure.

3. **Tax revenues will decline and, over time, grow more slowly than otherwise anticipated. Audit, oversight and enforcement provisions will increase city costs.**

As services and payrolls are reduced, tax revenues can be expected to decline. Parking, sales and hotel/motel taxes will be negatively impacted. In addition, property tax revenues will be affected as Prop. 1 encourages developers to look outside SeaTac for new King County investment.

City staff says the "direct fiscal impact is unknown," but acknowledge "there will likely be direct costs associated with monitoring compliance of this Ordinance" (City). While both the anticipated costs of litigation and monitoring may be unknown, the costs are not zero and could easily reach the hundreds of thousands.

In the city manager's 2013-2014 budget message, he wrote, ". . . the City will face more difficult situations ahead, as inflationary increases in expense levels continue to outpace the revenue generated from the maximum allowable one percent (1%) property tax levy increases" (Cutts).

Prop. 1 exacerbates the "more difficult situation" anticipated.

4. **SeaTac residents represent fewer than 10 percent of the workforce covered by Prop. 1 and the city will receive no economic benefit from the higher mandated compensation.**

An examination of employment and commute data demonstrate that SeaTac residents make up less than 10 percent of the workforce in the city. That number may shrink further as the higher mandated compensation makes work in SeaTac more attractive to residents of Seattle and other surrounding communities. The claimed economic benefit of the higher wages will not accrue to businesses in the city, but rather will be distributed over the larger metropolitan Seattle economy.

5. **Prop. 1 imposes extraordinary compliance and equity challenges for all businesses, but especially those with substantial operations outside the city.**

The businesses directly affected by Prop. 1 include a number of national retail, restaurant, and transportation employers operating in a multitude of cities. Harmonizing state policies to create consistent employment policies can be a challenge, but one with which most businesses are familiar. As cities adopt their own "living" wage, labor retention, and other HR policies, the compliance challenges multiply. Compliance burdens require additional staffing. Equity issues among employees in various locations become a problem. The risk of costly litigation and mediation make certain locales less attractive for investment and job creation.

# Proposition 1 and the "Living Wage Movement" in SeaTac: Increasing Unemployment, Decreasing Opportunity

In November SeaTac voters will decide the fate of a multi-faceted "living" wage law. (Ordinance) For certain hospitality, transportation and airport employers, Proposition 1 would establish a $15 an hour minimum wage and paid sick leave benefits, and it would impose restrictions on employers' labor practices.

A coalition of labor and progressive organizations gathered sufficient signatures to put the measure before the city council, which could either vote to enact it or refer it to the voters. The SeaTac City Council voted July 23 to place it on the ballot as Proposition 1.

In this report, we review the elements of Prop. 1 and consider the economic effects on the residents, businesses and city government in SeaTac. To inform this analysis, we also look at the national progression of "living wage laws" and minimum wage research in recent years.

## The Proposed Ordinance

Supporters say the measure will affect some 6,000 low-wage workers in the city. (SCGJ) Hospitality and transportation employers that must comply with requirements are:

- Hotels with 100 or more guest rooms and 30 or more employees.
- Foodservice and retail operations with 10 or more employees operating in public facilities, corporate cafeterias, conference centers and meeting facilities.
- Transportation employers—excluding certificated air carriers performing services for themselves—with 25 or more nonmanagerial employees and operating or providing services such as curbside passenger check-in, baggage check, wheelchair escort, aircraft washing and cleaning, security, ground transportation, janitorial and custodial services, and facilities maintenance.
- "Transportation employer" also includes rental car services, shuttle transportation and parking lot management businesses employing 25 or more nonmanagerial employees.

Free-standing restaurants and retail operations that are not part of a hotel are exempt.

Although the most attention has been focused on the $15 minimum wage requirement, Prop. 1 contains a number of provisions, including the following:

A. Paid sick leave

B. Priority work hours to existing part-time employees

C. Tips and service charges

D. $15 minimum wage

E. Labor retention

F. Record-keeping

G. Collective bargaining waiver

Each of these elements of the proposal is addressed briefly below, followed by an extended discussion of the economic effects of minimum wage laws, living wage requirements, paid sick leave and labor retention policies.

### A. Paid sick leave

*What Prop. 1 says*: Prop. 1 requires that covered workers "accrue at least one hour of paid sick and safe time for every 40 hours worked." These hours may be used as soon as they are accrued, with no requirement that the employee provide documentation of illness. If the employee does not use all of the accrued compensated time by the end of the calendar year, the employer must provide a lump sum settlement equal to the value of the unused compensated time.

Although there is no specified employee reporting requirement, Prop. 1 states that sick time is provided for physical or mental illness, injury, or to care for a family member. Safe time is provided when the workplace is closed to limit exposure to hazardous material, to care for a child whose school has been closed for such a reason, or to address issues relating to domestic violence, sexual assault or stalking.

*Policy implications*: We discuss this issue in more detail below. Briefly, the requirement, particularly when combined with the higher wage floor, provides another incentive for businesses to reduce staffing to control labor costs. The measure interferes with an employer's ability to establish flexible compensation policies.

**B. Priority Hours**

*What Prop. 1 says*: In a provision billed "promoting full-time employment," Prop. 1 requires employers to offer additional hours of work to "existing qualified part-time employees before hiring additional part-time employees or subcontractors."

*Policy implications*: Currently, employers use different strategies to assure adequate coverage. For some employers, having access to a larger pool of part-time employees provides better scheduling flexibility than a smaller number of full-time workers. The provision limits an employer's ability to manage staffing effectively.

**C. Tips and service charges**

*What Prop. 1 says*: Prop. 1 directs that any service charge imposed on customers or tips received by employees must be retained by or paid to the "nonmanagerial, nonsupervisory" employees performing the service. Specifically included are tips and fees associated with banquets, catered meetings, room service, and baggage services.

*Policy implications*: Some employers already have such policies in place. It's important to remember, however, that tips and service charges are elements of an overall compensation structure. The requirement affects established policies, including tip pooling and distribution of banquet fees. Some low-wage employees may see their compensation reduced as a result of this provision.

**D. $15 minimum wage**

*What Prop. 1 says*: The measure imposes a $15 minimum wage for all covered workers, effective January 1, 2014. Each year thereafter, the wage would increase with inflation as measured by the consumer price index for urban wage earners and clerical workers (CPI-W), the same inflation adjustment currently used to index the statewide minimum wage. Employers are required to provide written notification of the wage adjustment to each employee. The measure specifically states: "Tips, gratuities, service charges and commissions shall not be credited as being any part of or be offset against the wage . . ."

*Policy implications*: The consequences of the $15 minimum wage will be discussed at greater length below. Briefly, however, we will emphasize a couple of points here.

Washington currently has the nation's highest statewide minimum wage, $9.19 per hour. The state has topped the national rankings since voters approved Initiative 688 in 1998. Washington is also one of just seven states that do not provide a tip credit. The proposed $15 minimum amounts to an unprecedented 63 percent increase in the wage floor. And it would be the highest minimum wage in the nation, including "living wages" imposed in a number of cities across the country.

Given the unprecedented level of this increase, specific employment effects are difficult to quantify prospectively. But there can be no doubt about the general effect: In the labor intensive hospitality and transportation sectors targeted by Prop. 1, the immediate effects will be the elimination of jobs and the substitution of more highly skilled employees for low skilled workers.

**E. Labor retention**

*What Prop. 1 says*: Transportation and hospitality employers with contracts in the city are required to give retention employees 60 days advance notice if the employer's contract is being terminated. A retention employee is one who worked for the terminating employer for at least 30 days and was either laid off during the preceding two years or is likely to lose his/her job as a result of closure or reduced operations in the next six months. The notice alerts employees that they are being "placed on a qualified displaced worker list [retention pool] and that the Successor Employer may be required to offer him/her continued employment."

*The provision invites litigation.*

The successor employer (i.e., the employer who contracts to provide services similar to those of the contract being terminated) is required to hire from the retention pool. Hospitality employers must hire from the retention pool before transferring workers from elsewhere or "hiring off the street." If not enough positions are available for all retention employees, the new employer shall hire by seniority within each job class. No retention employee can be discharged without just cause in the first 90 days of employment. A retention employee is deemed "qualified" by having previously performed similar work without being discharged or by being as capable of being trained as a new hire.

*Policy implications*: The requirement poses significant challenges for successor employers. Employers are precluded from transferring workers from other sites, forced to hire by seniority rather than performance, and constrained in their ability to recruit and retain employees best suited to their operation. The provision invites litigation and may be preempted by federal law.

**F. Record-keeping**

*What Prop. 1 says*: The employer is required to "retain records documenting hours worked, paid sick and safe time . . . and wages and benefits provided . . . for a period of two years." Further, the city manager or designee is required to be given access to records "to investigate potential violations and to monitor compliance." The measure also states that whenever there is a dispute regarding leave time, a lack of adequate records will lead to the presumption that the employer has violated the law.

*Policy implications*: The law imposes a substantial new record-keeping requirement, risks employee confidentiality by opening personnel files to city officials, tilts the scales against the employer in resolving HR disputes, and increases the city's administrative costs by expanding regulatory responsibilities.

**G. Collective bargaining waiver**

*What Prop. 1 says*: A collective bargaining agreement may supersede the requirements of the ordinance. "All of the provisions . . . may be waived in a bona fide collective bargaining agreement, but only if the waiver is explicitly set forth in such an agreement."

*Policy implications*: The collective bargaining waiver increases pressure on employers to support union organizing efforts. It creates new competitive challenges for employers based on whether or not they are unionized. Outside a collective bargaining framework, employees in a nonunion business are not granted the right to waive the requirements of the ordinance.

## SeaTac Residents Affected by Prop. 1

With a population of 27,247, SeaTac represents less than 1 percent of the metropolitan Seattle population of 3.5 million. SeaTac is an ethnically diverse community. Of the population five years of age and older, 58 percent speak only English at home, contrasting with a U.S. average of 80 percent. (Weis 2012a) Twelve percent of the families in the community live below the poverty level. The U.S. Census Bureau's American

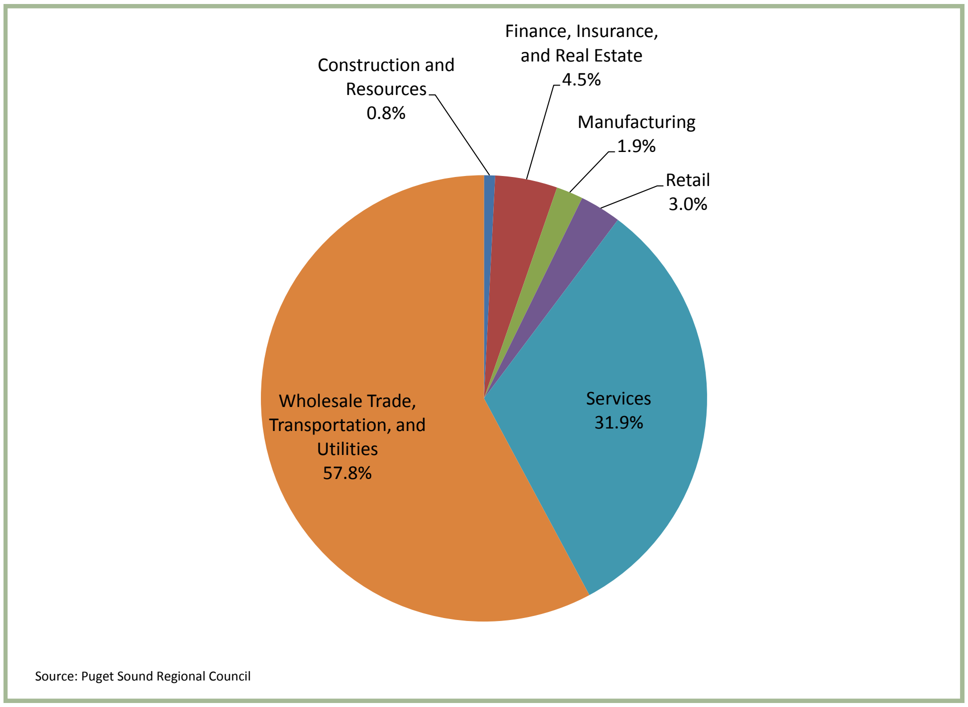
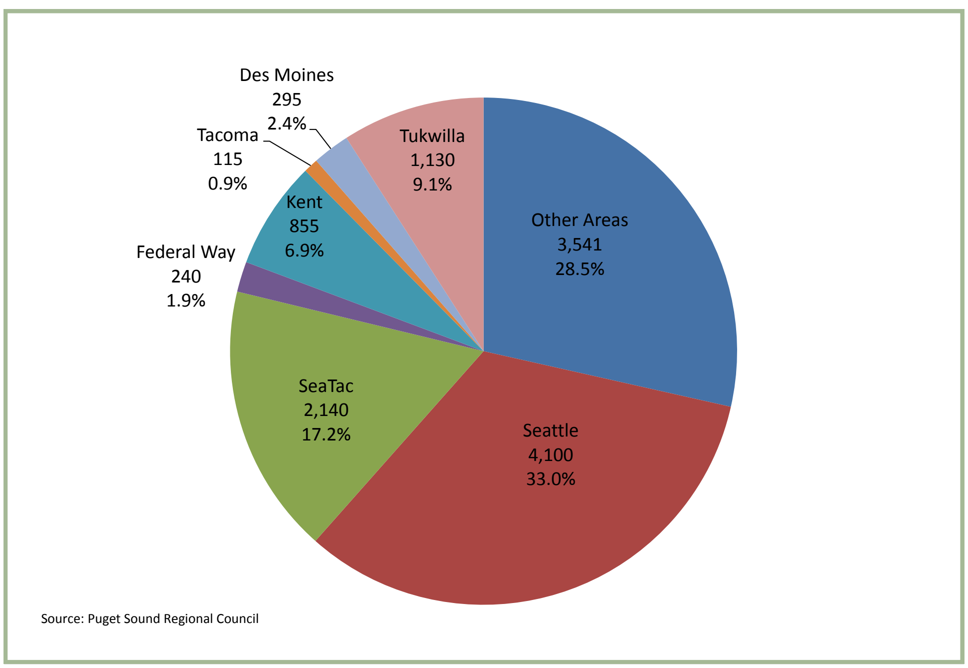



Chart 1: Employment in the City of SeaTac, 2011

Chart 2: Where SeaTac Residents Work (Number of Employees)




Community Survey reports SeaTac has a 16.4 percent poverty rate, well above the King Country rate of 10.5 percent and the statewide poverty rate of 12.5 percent. (Census) The poverty rate in a city, however, does not tie directly to wage levels in that city. With a mobile labor market, metro residents frequently live in one city and work in another.

Most of the residents of the City of SeaTac are not among those who will receive higher wages and benefits under Prop. 1.

As noted in the city's 2011 Comprehensive Annual Financial Report, "SeaTac's economy is based on a strong air travel sector . . . The three largest local economic sectors are airlines, lodging and rental cars" (Antin). These are the industries directly affected by the proposed ordinance.

Employment demographics prepared for the city show a total civilian labor force of 12,903. (Weis 2012b) That's about half the 24,828 workers employed within the City of SeaTac, according to the Puget Sound Regional Council's report on covered employment, with most of them in the Wholesale Trade, Transportation, and Utilities classification. (PSRC 2011) (See Chart 1.)

We know from the data that most SeaTac residents leave the city for employment and that the vast majority of the SeaTac workforce lives outside the city.

The most recent comprehensive examination of commute flows is from the 2000 Census Transportation Planning Products Profile available from the Puget Sound Regional Council. (PSRC 2000) By examining commutes to and from SeaTac, we can understand better where area workers reside.

In 2000, just 2,140 SeaTac residents commuted to a job in SeaTac; 10,276 commuted to work outside the city, 4,100 of them to Seattle. (See Chart 2.)

Looking at incoming traffic, 20,342 people commuted to SeaTac for work (excluding the 2,140 SeaTac residents).

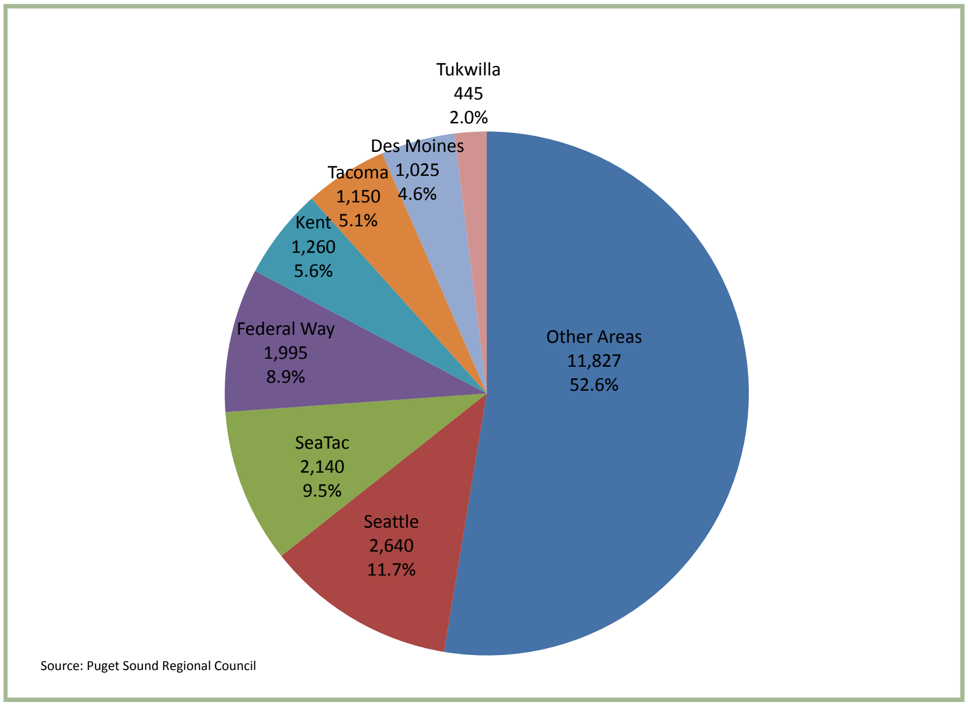
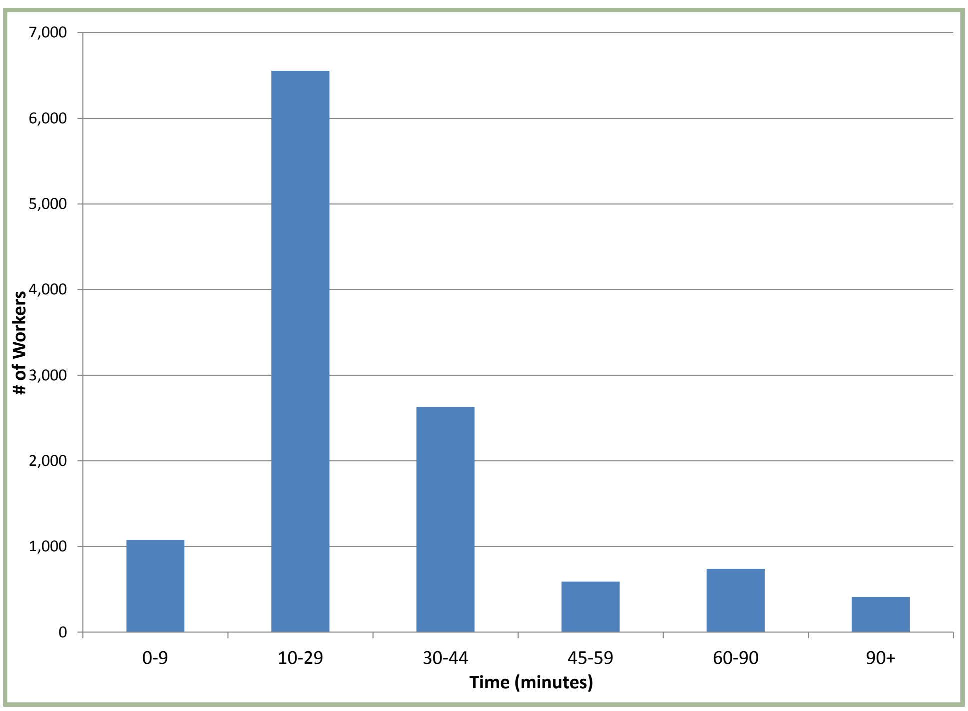



Chart 3: Where Employees in SeaTac Live (Number of Employees)

Chart 4: SeaTac Residents' Commute Times




The commute data show a total of 22,482 jobs in the city (2,140 residents plus 20,342 incoming commuters). SeaTac residents made up just 9.5 percent of the workforce in the city in 2000. (See Chart 3.)

While these data are more than 10 years old, more recent commute time statistics confirm the conclusion. The American Community Survey reports that of 12,322 SeaTac residents above the age of 16 reporting a job commute, fewer than 9 percent had a commute shorter than 10 minutes. (See Chart 4.) That number reinforces the earlier flow traffic estimate.

A 2007 economic impact analysis of the Port of Seattle reported that SeaTac residents held just 1,241—6.6 percent—of the 18,773 direct jobs associated with the airport. (Martin 57) (See Chart 5.)

Considering all these factors, we estimate that fewer than 10 percent of the hospital and transportation workers affected by Prop. 1 are SeaTac residents.

In other words, nine out of 10 workers benefitting from the higher wage floor will take their paycheck out of the city. City residents, however, also can be expected to do most of their retail shopping in neighboring communities with a larger retail footprint (e.g., Tukwila's Westfield Southcenter Mall).

## Living Wage Laws

The $15 minimum wage for transportation and hospitality workers reflects a continuation of what's known as the "living wage movement." Liberal labor economist Jared Bernstein writes that it "is centered on a specific policy: passing a local ordinance to raise the wage floor for a specified group of workers covered by the ordinance" (Bernstein 99).

Ultimately, however, as economist Paul Krugman said in 1998, "The living wage movement is simply a move to raise minimum wages through local action" (Krugman).

As Bernstein noted 10 plus years ago, "Each of these ordinances is unique."

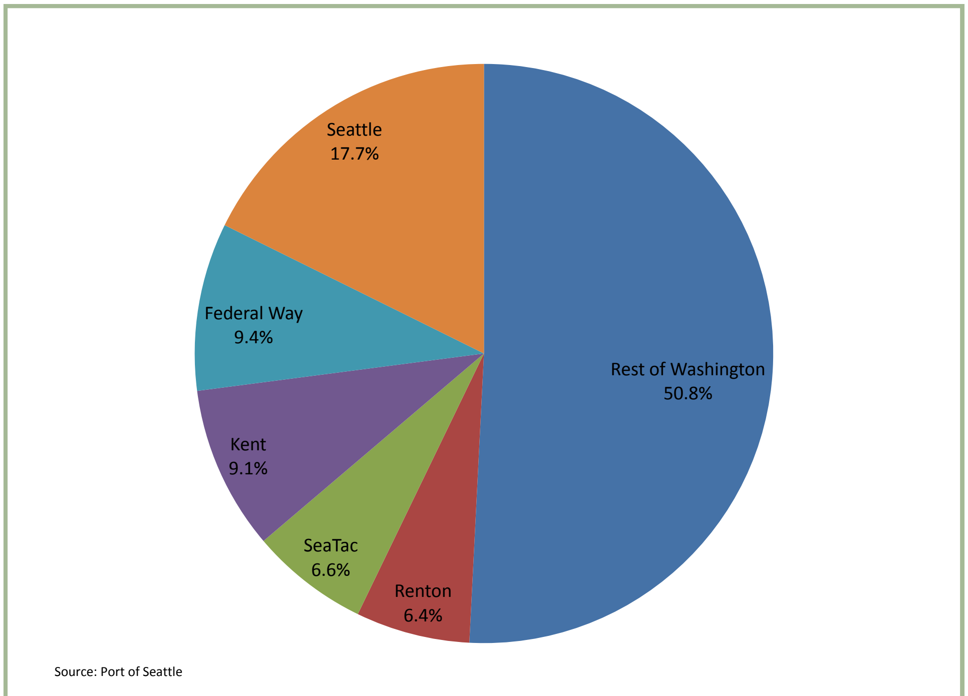



Chart 5: Direct Jobs from Airport Activity, by Employees' Cities of Residence

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But they do follow a pattern. The contemporary movement is generally seen to have begun in Baltimore with a campaign led by unions and church groups to boost pay for city contract workers. (Gertner) Activists with the Association of Community Organizations for Reform Now (ACORN) developed the concept, carrying it to local governments across the country.

Work by Mark Brenner, an associate researcher at the Political Economy Research Institute who generally supports living wage laws, finds, "By the end of 2002 more than 100 cities, counties, school boards or other local government bodies had enacted living wage laws" (Brenner 1). Unsurprisingly, the laws vary considerably. Brenner reports that 77 percent of the laws affect firms contracting with the government, while others address standards for economic development or municipal employment. Bernstein notices that such ordinances have been used to discourage government outsourcing, as well.

A comprehensive economic impact study of a proposed New York City living wage mandate, one tied to firms receiving economic development financial assistance from the city, included a statistical analysis of the impact of living wage laws in 42 major metropolitan areas. As noted before, these laws vary widely in application and scope, but the general finding is instructive: ". . . we consistently find statistically significant evidence of employment reductions for all types of living wage laws . . ." (CRA 23).

The living wage movement has also led some cities to adopt their own minimum wage, above the federal or state rate. In 2003, San Francisco and Santa Fe adopted citywide minimum wage ordinances. San Francisco's minimum wage now stands at $10.55 (CCSF), the nation's highest; Santa Fe has a $10.51 minimum (CSF). SeaTac's proposed $15 minimum, then, is more than 40 percent higher than the highest minimum in the country.

Several other cities, including Milwaukee, Wisconsin, and New Orleans, Louisiana, adopted minimum wage laws that were ultimately preempted by state law. (Dube et al.)

An examination of living wage laws in 26 cities confirmed significant negative employment effects. Increasing the living wage by 50 percent, economists found, reduces employment among the lowest wage earners by as much as 2.8 percentage points. (Neumark et al. 2012 27-28) The SeaTac proposal represents a 63 percent increase in the base wage and can be expected to cause an even greater reduction in employment among low wage earners.

## Employment Effects and the Minimum Wage

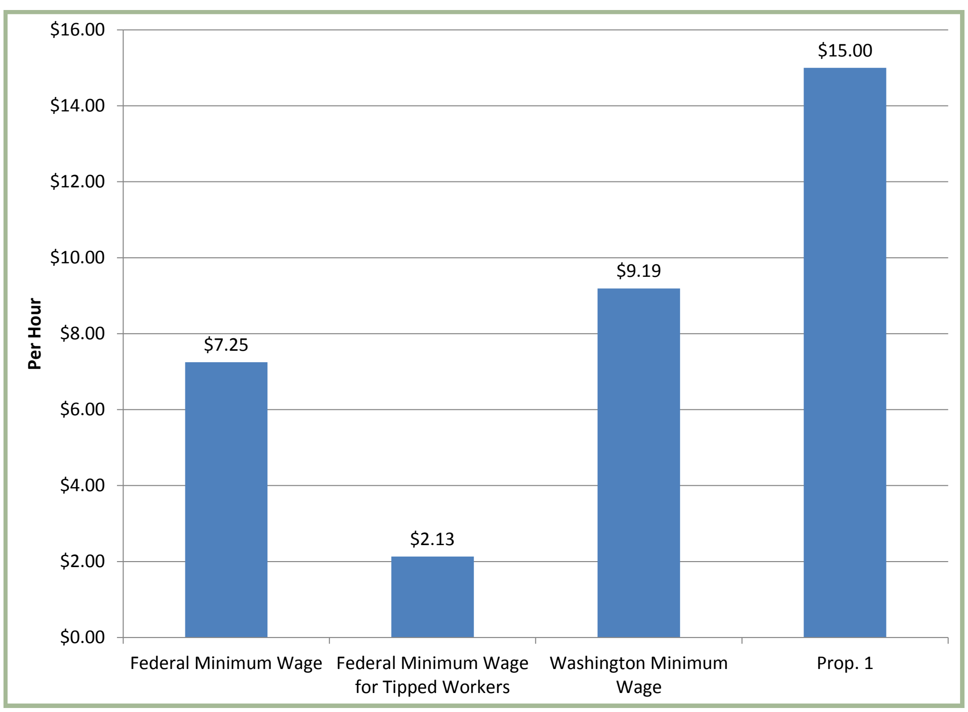
The relatively broad coverage of the SeaTac proposal makes it relevant to assess its impacts by reviewing the minimum wage literature. Washington has the nation's highest statewide minimum wage, $9.19 per hour, more than 25 percent higher than the federal minimum wage of $7.25 per hour. The statewide minimum wage was raised when voters approved Initiative 688 in 1998 and indexed the rate to inflation.

Washington is also one of only seven states that do not provide a credit for tipped employees. The federal minimum wage sets a floor of $2.13 an hour for employees receiving tips, with the expectation that tips will bring them to the $7.25 minimum. A 2011 study by economists William Even and David Macpherson concluded that raising the minimum wage without providing a tip credit causes

> employment to fall in full service restaurants relative to limited service restaurants. . . . since employers at full service restaurants are more likely to be able to claim a tip credit and higher cash wages will impact them more . . . (Even and Macpherson 17)

The president of the Washington Restaurant Association says the typical restaurant here has 14 employees, rather than the national average of 17, one consequence of not allowing a tip credit. (Lacitis and Clarridge) Put another way, restaurant staffing in Washington restaurants is nearly 20 percent below the national average.

Chart 6: Minimum Wages




Unlike living wage laws, with the multitude of unique and local provisions that make impact analysis difficult, the minimum wage may appear to be more straightforward. Yet, the last 20 years have seen a number of controversies.

Until the mid-1990s, the effect of the minimum wage could be called settled science: Raise the minimum wage and employment decreases.

In 1988, when Congress was considering an increase in the then $3.35 an hour federal minimum wage, the *New York Times* editorialized,

> . . . by raising the cost of labor, a higher minimum would cost other working poor people their jobs. The Department of Labor estimates that each 10 percent increase means that 100,000 to 200,000 jobs would be eliminated or not created. (NYT)

Ten years later, Krugman would write, "Any Econ 101 student can tell you . . . : The higher wage reduces the quantity of labor demanded" (Krugman 1998).

Taking note of influential studies by economists David Card and Alan Krueger (now the chairman of the President's Council of Economic Advisers) that called the consensus into question, Krugman added,

> . . . most of their colleagues are unconvinced; the centrist view is probably that minimum wages 'do,' in fact, reduce employment, but that the effects are small and swamped by other forces. (Krugman 1998)

Although Krugman wrote earlier this year that he now disagrees that minimum wage hikes lead to employment loss (Krugman 2013), it turns out Econ 101 still stands.

The Card and Krueger studies began what's been called the "new minimum wage research," on which rest many of the calls for increases in the federal minimum wage or, failing that, municipal living wage laws.

In October 2006, economists David Neumark and William Wascher published a comprehensive review of the literature. After rigorous analysis, they find that 85 percent of the best minimum wage studies “point to negative employment effects” (Neumark and Wascher 2006 121).

They conclude,

> [T]he oft-stated assertion that the new minimum wage research fails to support the traditional view that the minimum wage reduces the employment of low-wage workers is clearly incorrect. Indeed, in our view, the preponderance of the evidence points to disemployment effects.

And, they write, “In contrast, we see very few—if any—cases where a study provides convincing evidence of positive employment effects of minimum wages . . . ”

In a January 2013 report, Neumark and J.M. Ian Salas revisit the literature. Again, they find,

> The research record still shows that minimum wages pose a tradeoff of higher wages for some against job losses for others, and that policymakers need to bear this tradeoff in mind when making decisions about increasing the minimum wage. (Neumark and Salas 2013 34)

In SeaTac, in November, voters are the policymakers.

Of critical importance is the magnitude of the wage hike.

Princeton economist Thomas Leonard, writing on the minimum wage controversy in 2000, says,

> Card and Krueger say that their ‘strongest and most important finding’ is the absence of disemployment effects from moderate increases in minimum wages. The qualifier ‘moderate’ is important. No economist believes that fixing a wage floor at $100 per hour would not create disemployment. (Leonard)

There’s no need to reach the $100 per hour level.

Card appears to agree. In a 2006 interview, he said, “I think my research is mischaracterized both by people who propose raising the minimum wage and by people who are opposed to it” (Clement).

He added,

> It doesn't mean that if we raised the minimum wage to $20 an hour we wouldn't have massive problems, if we enforced it. . . . My guess is that small raises in the minimum wage won't have much of an effect. (Clement)

Other economists associated with the minority “new minimum wage research” camp balk at the idea of a $15 minimum wage.

In response to Seattle venture capitalist Nick Hanauer’s call for a $15 federal minimum wage, Arindrajit Dube, whose research was cited by the White House in support of its proposed increase in the federal minimum wage, told Washington Post columnist Dylan Matthews that there’s no way to estimate the impact. There’s never been a jump that high. The evidence on wage effects, Dube says, is limited to a time period in which the statutory minimum has been “between roughly 35% and 50% of the national median wage” (Matthews).

At $15, the minimum wage would be at about 75 percent the national median. While it may be difficult to quantify, there’s no question the increase would result in significant job loss. Tim Worstall, Fellow at London’s Adam Smith Institute writes, “. . . when the minimum wage rises above 50% or so of median wages then we start to see significant unemployment effects” (Worstall).

Similarly, former U.S. Department of Labor administrator Mark Wilson writes,

> The main finding of economic theory and empirical research over the past 70 years is that minimum wage increases tend to reduce employment. The higher the minimum wage relative to competitive-market wage levels, the greater the employment loss that occurs. (Wilson 6)

That the effects appear muted in some research can be explained most easily by noting that minimum wage increases are typically moderate, imposed incrementally over time.

Bernstein offers a good explanation why that occurs.

> Richard Freeman, the godfather of labor economics, once told me that one reason minimum wage increases don't have the job loss effects their opponents predict is because the political process disallows increases that would be large enough to trigger such effects. (Bernstein 2013)

The SeaTac proposal, which lifts the minimum by $5.83 an hour, 63 percent, would pull the trigger for large and negative employment effects.

*The SeaTac proposal, which lifts the minimum by $5.83 an hour, 63 percent, would pull the trigger for large and negative employment effects.*

Proponents of a higher minimum wage frequently argue that a higher minimum wage is necessary to help people escape poverty. The effect, though, is often the opposite. Those on the margin are often the first employees let go when the minimum wage rises.

Backers of the higher wage sometimes say that the workforce has changed, that minimum wage workers are more likely today to be older, better educated and family breadwinners. (Surowiecki) Nonetheless, the Bureau of Labor Statistics (BLS) reports minimum wage workers nationally are disproportionately young. Workers below age 25 represent 20 percent of the workforce and about half of minimum wage recipients. They also tend to be less educated. About 10 percent of workers without a high school degree earn the minimum wage. That falls to 4 percent with a high school diploma and 2 percent with a college degree. The hospitality industry employs about half of all minimum wage workers. But, as BLS notes, "for many of these workers, tips and commissions supplement the hourly wages received" (BLS).

Increasing the minimum wage also leads to a slowdown in job creation. Jonathan Meer and Jeremy West report that "on average, about one-sixth fewer jobs are created on net for each 10% increase to the minimum wage" (Meer and West 14).

In fact, they report

> The most prominent employment effect of minimum wage laws is a decline in the hiring of new employees. . . . This phenomenon is particularly important given the evidence that minimum wage jobs often result in relatively rapid transitions to higher-paying jobs. (Meer and West 18)

### Economic Impact of Higher Wage

While initiative supporters claim an economic push of $40 million in new revenues to the region, that's surely an overstatement in that it assumes no reduction in employment. The boost in wages for fewer than 6,000 workers will be distributed broadly throughout metropolitan Seattle. (Remember, nearly all of the money will be spent outside the city of SeaTac.) In 2011, the gross metropolitan product for the region was $240 billion. (BEA) Even accepting supporters' estimate, the $40 million wage boost would represent an increase of less than 0.02 percent in the metropolitan economy, with zero concentrated impact. Further, not all of the estimated increased revenue would be new to the region. A portion will have been redistributed from other workers.

### Paid Sick Leave

The SeaTac initiative also requires affected employers to provide paid leave for "sick and safe time." Each covered worker would accrue one hour of paid leave time for every 40 hours worked. The worker would be able to use the leave time as soon as it has been earned and "need not present certification of illness to claim compensated sick and safe time." Further, at the end of the calendar year the employer must provide employees a lump sum payment for any unused leave time.

Sick and safe time may be used for periods when the workplace has been closed for safety reasons; for child care; and to receive assistance with issues associated with domestic violence, sexual assault or stalking.

Paid sick leave laws are a relatively recent phenomenon, beginning in San Francisco in 2007. Subsequently, municipal paid sick leave mandates have been adopted in Portland, Oregon, New York City (despite Mayor Michael Bloomberg's veto), Washington, D.C., and Seattle. (Moore and Durkin) In 2011, Connecticut became the first and only state to mandate paid sick leave with legislation that applies to certain service employees. (Applebome) Philadelphia Mayor Ray Nutter has twice vetoed council-passed paid sick leave ordinances, citing economic considerations. (Graham) A dozen states have enacted laws preempting local paid sick leave ordinances. (NRA)

*Adding a paid sick leave mandate to a steep increase in the minimum wage exacerbates the job losses that will be caused by the wage hike.*

Under the Seattle law, which went into effect Sept. 1, 2012, employers with more than four employees must provide paid leave to full-time, part-time, temporary and occasional employees who work in the city at least 240 hours a year. Unlike the SeaTac proposal, Seattle's ordinance provides tiered accrual hours based on employer size. Also, unlike the SeaTac proposal, the Seattle ordinance does not provide for a year-end cash out. The Seattle ordinance, like the SeaTac proposal, can be waived as part of a collective bargaining agreement.

The Seattle ordinance required an evaluation of the impact of the regulation on employees and employers. In June, the University of Washington released the first of a series of assessments, based on an employer survey conducted from August through October 2012. Among the findings:

- At the time the ordinance went into effect, more than two-thirds of employers were noncompliant or only partially compliant.
- Paid leave may increase employees' earnings and employers' labor costs.
- "Among employers who know about the Ordinance and do not currently offer paid leave, only four in ten plan to change their policies" (Romich).

The compliance issues uncovered by the survey suggest that the enforcement and auditing responsibility placed on the city by Prop. 1 could impose a significant burden.

Research also indicates that many employers offset the higher benefit costs by reducing other compensation. To assess the effects of a proposed paid sick leave ordinance in Orange County Florida, economist William Seyfried assessed the experience in other cities. Significantly, and in keeping with findings from the minimum wage literature, Seyfried found that 40 percent of affected employees would lose other forms of compensation as employers offset increased labor costs. (Seyfried)

In 1989, economist Lawrence Summers, later Treasury Secretary in the Clinton Administration, wrote of mandated benefits,

> . . . they only help those with jobs. . . . Suppose, for example, that there is a binding minimum wage. In this case, wages cannot fall to offset employers' cost of providing a mandated benefit, so it is likely to create unemployment. (Summers 181)

He adds, "There is no sense in which benefits become 'free' just because the government mandates that employers offer them to workers" (Summers 182).

Adding a paid sick leave mandate to a steep increase in the minimum wage exacerbates the job losses that will be caused by the wage hike.

### Labor Retention

The SeaTac initiative includes a union-supported labor retention requirement. The provision is a priority for unions concerned both with potential changes in the airport's concessionaire leasing policies and with airlines contracting for services like baggage handling, wheelchair escort services, aircraft cleaning, aviation ground support, fueling and the like. The labor union Unite Here states, "When contracts turn over, unionized workers have historically mobilized to retain employment and retain higher wage and benefits in union contracts" (Airport Group).

Supporters of the requirement unsuccessfully sought to have a similar measure passed by the state legislature in the 2011 and 2012 sessions (HB 1832).

The Port of Seattle evaluated the policy. A 2011 staff memo to Tay Yoshitani, the port's chief executive officer, summarized results of an extended stakeholder outreach process and analyses designed to determine concessions program principles and practices. As part of the analysis, staff outlined concerns with the labor retention policy being advocated by the Hotel Employees and Restaurant Employees and the United Food and Commercial Workers. The staff concluded that the retention policy:

- "Appears to carry significant legal risk of violating federal law and the permanent federal injunction against the Port directing its tenants to adopt specific labor practices;
- "Would likely be challenged in federal court;
- "Would require a significant increase in Port staff to manage and regulate;
- "Is opposed by the majority of concessions stakeholders (incl. airlines, current independent business, prospective local business, and small/ACDBE business);
- "Would very probably reduce small and local business interest in participating in the concessions program; and
- "Is unnecessary to protect the continued employment opportunities of capable concessions workers" (Reis and Zachrisson 21).

A little background on airport concessions helps frame the issue. The port began a leasing structure in 2005 that combines multi-unit prime concessionaire lease agreements and direct leasing. The prime leases go to large operators who then sublease, sometimes to independent businesses. The direct lessees are local operations, including Airport Concessionaires Disadvantaged Business Enterprises (ACDBE). Often the prime leases involve firms with collective bargaining agreements. Direct lessees tend to be nonunion.

As leases open up in the next few years, the port will be working to strike a balance between prime concessionaires and direct leases. Prime concessionaires operate nearly two-thirds of concessions at SeaTac airport. The staff memo noted that labor would prefer a policy that had a small number of prime concessionaires operating 90 percent of the airport concessions. The port and the direct ACDBE concessionaires would like to see greater opportunities for independent local businesses opened up. Further, the memo notes, "There appears to be validity to the idea that consumer spending with locally owned businesses keeps a greater share of dollars in the local economy"
(Reis 9).

### Street Pricing

Doing business at the airport entails high costs. A 2008 study of build-out and other costs for food and beverage operations commissioned by the port found that costs at SeaTac airport were substantially higher than at comparable airports. Concessionaires estimate the build costs as double what they'd be for a street location. Add to that the higher costs associated with longer operating hours, security badging, and onsite storage and the challenge comes into perspective. Offsetting that is the market opportunity stemming from high customer volume and limited competition.

Still, margins are thin, and, because of a "street pricing" policy adopted in 2002, concessionaires are bound to charge the same price at the airport as they do at their non-airport locations. (Reis 12-15) Concessionaires, therefore, are precluded from raising prices to cover higher wages.

### Collective Bargaining Waiver

"Living" wage ordinances and similar measures, like Seattle's paid sick leave ordinance, often provide a means for the provisions of the law to be waived through collective bargaining. The $15 SeaTac minimum wage is higher than the pay scales negotiated for some union employees. The experience in Los Angeles is instructive. A sympathetic analysis of the Los Angeles living wage law found that raising the wage "enabled many unions to bargain better compensation packages" (Fairris et al. 9).

*Promoting unionization has been a theme in the minimum wage initiatives at west coast airports.*

Promoting unionization has been a theme in the minimum wage initiatives at west coast airports. In San Francisco the ordinance included a "labor peace/ card check agreement" that went into effect in February 2000. The policy "had a substantial impact on labor relations at SFO" (Reich et al. 10), adding 2,000 workers to union membership rolls shortly after taking effect.

### West Coast Airports

Although initiative backers cite four California airports—Los Angeles, San Francisco, San Jose and Oakland—with minimum wage requirements (Keenan and Greenwich), most airports in the nation do not impose a "living" wage. Moreover, there are important differences between the SeaTac proposal and the California experiences. Among them: the SeaTac initiative imposes the highest minimum wage (employers providing health benefits get a $4.67 credit against the $15.37 minimum at LAX) and the coverage and scope varies considerably: the SeaTac proposal extends beyond the airport to hotels, restaurants, parking lots, and car rental agencies; and SeaTac represents just a small fraction of the metro area.

### The Business Response and Economic Impact

From the economic research, we know businesses respond to increases in the minimum wage by reducing labor costs in other ways.

Concessionaires at the airport cannot selectively raise their prices to absorb the higher labor costs. And market competition similarly limits the ability of other affected businesses to pass higher costs on to consumers.

To learn more about how SeaTac employers will respond to the increased costs we interviewed and surveyed owners and managers of SeaTac businesses that would be subject to Prop. 1. Because many of them are competing in the same market, we agreed to keep the information confidential. Their responses overwhelmingly confirm the research findings from across the nation. Jobs will be lost. New jobs and investment will not be created.

A 63 percent increase in the wage floor in a small community in a large metropolitan center means SeaTac workers will face greater competition from job seekers with more skills. The higher SeaTac wage justifies the commute from surrounding communities. At the higher minimum, employers will be able replace lower skilled workers with more highly skilled, more productive employees.

Employers with national and regional operations express concern not just with the impact of Prop. 1 on their SeaTac location, but with the complications caused by a proliferation of local ordinances affecting employment policies. Compliance and equity problems will be among the consequences. Even within SeaTac, employers anticipate hiring additional human resource staff to assure the firm is complying with the law and to mediate disputes. Establishing common corporate policies across locations becomes increasingly difficult with substate employment mandates.

Below, based on responses from local managers and executives, we briefly consider some of the effects and likely responses for the hospitality and transportation businesses most affected.

*Hotels and Associated Restaurants*. Hotels surrounding the airport compete on price and convenience. SeaTac room rates are lower than similarly positioned properties in Seattle. To maintain market share, they cannot increase rates to compete. Conventions and group activities at the larger hotels select SeaTac sites because of value. Most are price conscious, increasingly so since the recession. Raising rates to absorb Prop. 1 costs would mean area hotels would be "pricing at a luxury level and offering a mid-tier experience," says one manager.

*A low wage does not necessarily mean low earnings.*

Although each hotel has its own business model, common themes run through the interviews.

The increased labor costs imposed by Prop. 1 would cause a comprehensive review of compensation and business strategies. Union and nonunion operations benchmark compensation on the market. Even some nearby operations outside SeaTac will likely experience some ripple effect. Although few hotel employees are paid the minimum wage, most are paid less than $15 an hour. But a low wage does not necessarily mean low earnings. With tips, bartenders, bellmen and servers at higher-end properties earn more than $50,000, and some can reach up to $150,000 annually. These highly compensated jobs are also most at risk should Prop. 1 pass.

Information from the National Restaurant Association confirms the impact of a high minimum wage here. In Washington, following the increase in the state minimum wage, labor costs continue to consume a greater share of operations than the national average, despite the reduction in staffing noted above. The average restaurant margin is just 4 percent. An average increase in labor costs of less than 20 percent eliminates the entire margin. Further, these data apply to average operations. Hotel restaurants are often operated on much thinner margins, as guest amenities.

Food and beverage services would be the most immediately impacted operations. Some restaurants will likely close. Others will scale back operations. Room service, for example, is an expensive, labor-intensive service to maintain. Menu dining also requires more servers. Shifting to a more self-service dining environment, including buffets, would lower labor costs in the dining room as well as the kitchen.

Some hotels would try to preserve a career ladder by increasing pay for all employees, taking a $12 an hour employee to $17 an hour, for example. Yet most expect there to be significant wage compression. One hotelier with a larger operation calculates the effect of the initiative to be an average wage increase of about $3 an hour, bringing the total cost increase to more than $3 million. But, like others in the industry, he quickly rules out the calculation, saying it's hard to quantify because the hotel would change the way it does business.

Job losses would be caused by reducing operations and from a substitution effect. A high minimum wage will attract more highly skilled and experienced employees to the SeaTac market. Current employees may have to compete to

Table: Basic Business Structure of Restaurants

| | WA | US |
|---|---|---|
| Labor Costs | 36% | 33% |
| Food Costs | 30% | 33% |
| All other costs (non-capital) | 30% | 30% |
| Average Margins | 4% | 4% |

retain jobs. Feeling the initial impact will be younger workers and those with limited English language skills. (Housekeeping jobs will be among the areas affected.)

As one manager said, "If this passes, entry level positions will not be available to people with entry level skills."

When voters in Long Beach, California, passed a $13 an hour "living wage" ordinance last November, the consequences were swift. To get below the 100-room limit set by the ordinance, one hotel eliminated 44 standard rooms. (LBPT) In another hotel, employees were told the facility would be reopening under new management, at which time they were eligible to reapply for their jobs. The steps taken by just those two hotels in response to the cost increase put 75 jobs at risk. (LAT)

*A steep increase in airline costs will result in changes in business strategies.*

*Retail and Restaurants in the Airport*. As noted above, doing business at the airport is expensive. The increase in mandated compensation overwhelms the small restaurant and retail margins. The street pricing requirement precludes them from increasing prices. Affected businesses are considering their alternatives, looking for ways to stay in operation. For some it will be impossible to reduce labor costs enough to maintain profitability at the airport location. At this point, operators simply are not sure how they would respond to keep the doors open, although reducing labor costs will be an imperative. For stores offering commissions, the increase in the minimum wage will most likely require a significant restructuring in commission structure. Some will be forced to go out of business.

As one respondent said, "There are really just two options: Increase prices or reduce labor." With street pricing, the former is not an option. Travelers are increasingly aware of airport prices. They resist paying above what they consider a fair market price, which they associate with the price they are charged outside the airport.

The direct lease model, which has been popular with travelers who enjoy the local brand presence, will be put at risk. ACDBE businesses will find it difficult to expand operations and new independent businesses are unlikely to choose to operate in the higher cost environment. The labor retention requirement will discourage nonunion businesses from taking over from another concessionaire. Most will want to select their own employees. Overall, the airport would lose the variety, the distinctive Northwest shops and cuisine, and the competition it has enjoyed since adopting the leasing model nearly a decade ago.

*Airlines*. Prop. 1 would substantially increase business costs for airlines that contract for services. (Recall that the measure exempts from the definition of transportation employer "a certificated air carrier performing services for itself.") Backers of Prop. 1 include labor unions opposed to outsourcing. The measure contains provisions that would erode the competitive advantages realized by firms contracting with vendors for ground-based services.

A steep increase in airline costs will result in changes in business strategies. Contrary to the notion that airlines have no alternative but to absorb the cost increase and pass it through in ticket prices, the industry is characterized by intense price competition. In the age of Expedia, Travelocity and Orbitz, air travelers have instant access to ticket information and make many of their travel decisions on price.

Airlines watch pricing and traffic. Schedules are adjusted to reflect cost and demand. When California airports imposed their living wage laws, some airlines responded by reducing flights. Smaller airlines operating out of SeaTac have little flexibility. Prop. 1 has the potential of reducing air traffic at the airport, limiting flight options for travelers, and reducing the number of carriers.

*Car Rental*. In May 2012, the Port of Seattle opened a new $400 million consolidated rental car facility adjacent to the airport. The rental car agencies doing business at the airport are located together at the building, with passengers shuttled between the new facility and the airport. The industry hires a large number of minimum wage employees. The great majority of employees earn less than $15 an hour. Like other affected employers, the agencies believe the increase in base compensation will force changes in their business models: overtime will be eliminated, less-qualified employees will be replaced by those with more skills, bonus plans will be revised or eliminated, employees will be laid off or get reduced hours, and vendor contracts will be amended. SeaTac is already an expensive location in which to do business, making the increase in compensation and administrative oversight particularly challenging.

*Parking Lots*. Prop. 1 applies to parking lot operations employing approximately 250 employees, most of whom start at minimum wage and move up. Tipped positions (primarily drivers) typically receive slower wage increases than do cashiers and other non-driving positions. The affected lots vary in size and distance from the airport, but for all of them the initiative imposes a substantial increase in labor costs. Across all lots the cost of the minimum wage increase and paid sick leave add about $3.5 million to $4 million in costs, assuming nothing changes.

But business owners and managers say things will change.

Raising parking fees to absorb a 63 percent increase in labor costs won't work. There is currently "equilibrium" in passenger transportation to and from the airport. People drive themselves and park in nearby lots. Or they take a taxi, shuttle, limo or light rail. Travelers are price conscious and parking pricing is sensitive to the costs of transportation alternatives. Raise prices too much and travelers leave their cars at home or park in other lots outside the city. The solution, then, is to reduce labor costs.

"Whenever you find automation or self-service, you'll do that," says one manager, saying credit card payment systems would allow them to eliminate cashier jobs. Other opportunities for reducing labor costs would be to introduce more "self-parking" spaces and eliminate services like auto-detailing. Valet services could be dropped. And consolidating shuttle routes would allow for a reduction in the number of employed drivers.

These strategy changes, all of which reduce service to customers, will not completely negate the effects of the initiative on SeaTac parking facilities. Operators expect a decline in revenues, which will also lead to a decline in parking taxes flowing to the city.

*Businesses Not Covered*. Although Prop. 1 does not cover small restaurants, retailers, or hotels, the mandated benefit levels create an upward push on wages in the community. While precise effects cannot be estimated, these employers will have many of the same incentives to reduce their payrolls as do the larger firms targeted by the measure.

## Major Findings

1. **Approximately 5 percent of low wage jobs will be lost. Another 5-10 percent of affected workers will be replaced by more experienced and educated employees.**

The economic literature finds that a 50 percent increase in the minimum wage for a broad range of low-wage workers leads to a decline in employment among the affected group of nearly 3 percent. The proposed $15 minimum wage for SeaTac hospitality and transportation workers is a 63 percent wage increase from the current minimum. We estimate that the magnitude of the proposed increase will reduce employment by 5 percent. Interviews with affected employers confirms that there will be immediate strategy changes to reduce personnel (e.g., specifically automating tasks currently performed by parking lot cashiers, more self-service or buffet options at restaurants, and reducing the size of operations).

In addition, the jobs that remain will now be priced competitively in a regional labor market. Labor market and economic research find that as the wage base increases, the lowest skilled and least experienced workers will be the first to lose their jobs. SeaTac transportation and hospitality employers currently hire young, inexperienced, and non-English-speaking employees. At the higher wage level, employers will have the ability to hire more experienced staff. Many will choose to do so. We estimate 5 to 10 percent of the employees at the lower compensation tier will lose their jobs as a result.

2. **Businesses not subject to Prop. 1 will feel pressure to increase compensation.**

Although Prop. 1 does not cover small restaurants, retailers, or hotels, the mandated benefit levels create an upward push on wages in the community. While precise effects cannot be estimated, these employers will have many of the same incentives to reduce their payrolls as do the larger firms targeted by the measure.

3. **Tax revenues will decline and, over time, grow more slowly than otherwise anticipated. Audit, oversight and enforcement provisions will increase city costs.**

As services and payrolls are reduced, tax revenues can be expected to decline. Parking, sales and hotel/motel taxes will be negatively impacted. In addition, property tax revenues will be affected as Prop. 1 encourages developers to look outside SeaTac for new King County investment.

City staff says the "direct fiscal impact is unknown," but acknowledges "there will likely be direct costs associated with monitoring compliance of this Ordinance" (City). While both the anticipated costs of litigation and monitoring may be unknown, the costs are not zero and could easily reach the hundreds of thousands.

In the city manager's 2013-2014 budget message, he wrote, ". . . the City will face more difficult situations ahead, as inflationary increases in expense levels continue to outpace the revenue generated from the maximum allowable one percent (1%) property tax levy increases" (Cutts).

Prop. 1 exacerbates the "more difficult situation" anticipated.

4. **SeaTac residents represent fewer than 10 percent of the workforce covered by Prop. 1 and the city will receive no economic benefit from the higher mandated compensation.**

An examination of employment and commute data demonstrate that SeaTac residents make up less than 10 percent of the workforce in the city. That number may shrink further as the higher mandated compensation makes work in SeaTac more attractive to residents of Seattle and other surrounding communities. The claimed economic benefit of the higher wages will not accrue to businesses in the city, but rather will be distributed over the larger metropolitan Seattle economy.

5. **Prop. 1 imposes extraordinary compliance and equity challenges for all businesses, but especially those with substantial operations outside the city.**

The businesses directly affected by Prop. 1 include a number of national retail, restaurant, and transportation employers operating in a multitude of cities. Harmonizing state policies to create consistent employment policies can be a challenge, but it is one with which most businesses are familiar. As cities adopt their own "living" wage, labor retention, and other HR policies, the compliance challenges multiply. Compliance burdens require additional staffing. Equity issues among employees in various locations become a problem. The risk of costly litigation and mediation make certain locales less attractive for investment and job creation.

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