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SF'S MINIMUM WAGE HIKE TOOK EFFECT JULY 1, BUT CHANGES LITTLE

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By Jessica Floum

Chai Bar by David Rio offers a dozen different chai tea lattes, \$7 beers and white wine on tap. A quiet space with wood tables, decorative pillows and young professionals tapping on stickered laptops beckons customers away from graffiti and the inescapable smell of urine on Market at Sixth Street.

General Manager Luis Ruvalcaba works hard to attract both customers and employees to his luxury cafe, located below the world headquarters of Zendesk, a service software company.

Ruvalcaba emphasized wages as a selling point to prospective workers when he opened the shop in May 2015. He starts them at \$13.50 an hour for a three-month probationary period before paying them \$14 an hour. Shortly before he opened, that starting wage was nearly 20 percent above the minimum.

On Friday, San Francisco's minimum wage increased from \$12.25 to \$13, making Ruvalcaba's offer sound far less generous.

"It's hard to stand apart," Ruvalcaba said.

Like many San Francisco businesses, Chai Bar has to pay more than the minimum to compete for workers. San Francisco's high

costs make hiring for hourly wage jobs challenging. The city's cost of living is 63 percent higher than the U.S. average, according to PayScale. Housing costs are through the roof, and transportation, health care and even groceries cost more.

The city is on track to increase the minimum wage to \$15 an hour by 2018, but that won't matter to most hourly workers, whose average wage has trended far ahead of the city's minimum since 2004. That's when Proposition L established a minimum wage of \$8.50 an hour for work performed in the city, the second such ordinance in the nation to take effect after Santa Fe's in New Mexico.

Average and minimum gap

In 2015, the average hourly employee in San Francisco made \$33.98 — more than three times the minimum wage that year, according to data from California's Economic Development Department.

The bigger the gap between average wages and minimum wages, the less of an impact minimum wage increases have, according to a 2014 economic impact report by San Francisco's Office of Economic Analysis.

The report predicted that a minimum wage increase would increase consumer income and spending and “employment associated with consumer spending” and so would “tend to expand the city’s economy.”

It also acknowledged that a minimum wage increase would lead to reduced employment in the city, which would “tend to contract the city’s economy.”

By the numbers, the former has seemed to outweigh the latter. Since 2014, the minimum wage has risen 21 percent. Meanwhile, unemployment in San Francisco County has dropped from 5 percent to 2.9 percent. In the same period, the labor force has grown from 522,300 to 549,800.

“There are trade-offs,” said David Neumark, economics professor and director of the Economic Self-Sufficiency Policy Research Institute at UC Irvine.

Fewer jobs

Raising the minimum wage gives employers incentives to produce what they can with fewer unskilled workers, which leads to lower employment, he said.

“The adjustment is not so much through firing people but through slower hiring,” Neumark said.

Neumark has published dozens of research articles about minimum wage and testified before Congress on the topic. His research shows that minimum wage disproportionately affects employment opportunities for unskilled workers because they tend to have higher job turnover.

“The research sort of says what minimum wages do is move money around low-income families,” Neumark said. “Some earn more. Some lose their jobs.”

The Office of Economic Analysis estimated in its 2014 report that at most 11 percent of San Francisco workers, or about 60,000 people, made the minimum wage in 2013.

Food-preparation and personal-service jobs accounted for the most minimum wage workers, the report said. Jobs in restaurants and bars, retail trade, manufacturing and personal maintenance and repair service industries employed the most, the report said.

Impending wage increases will especially burden restaurants, said Gwyneth Borden, executive director of the Golden Gate Restaurant Association.

Borden said many of her members raised prices earlier this year. She knows of one local fast-casual restaurant’s plans to raise menu prices 7 percent.

She says an accumulation of labor compliance costs has forced the increase in prices. Restaurant owners have to account for minimum wage, increased health care spending and mandatory paid parental leave.

Yet many factors lead to business failures, including the soaring cost of commercial rents and raw materials.

“Because of the high cost of doing business, you can’t afford to stay open if your restaurant is not filled every night,” Borden said. “You can’t sacrifice employees in a service industry, because service is how

you're defined. Maybe you cut your menu and the number of options. Maybe you move to prix fixe. Ultimately they have to adjust things — whether they are prices, food costs, etc. — in order to continue to operate.”

‘Something has to give’

A shortage of cooks in the city has meant restaurants have had to shell out more to attract kitchen employees, especially those ineligible for tips. And increasing tipped employees’ wages creates a demand for raises across other restaurant positions, Borden said.

“Something has to give,” said Tom Scott, the California state director of the National Federation of Independent Business. “It’s definitely going to lead to increased prices or reduced services or reduced hours.”

Cafe manager Grant MacHamer says customers hardly noticed when the Mill, a luxury coffee shop on Divisadero Street, raised prices by 25 to 75 cents in April. The cafe offers \$4 whole wheat cinnamon raisin toast, fresh-baked bread and farm-to-cup coffee. Higher wages prompted the changes, as did more expensive milk. As of April, a new barista makes \$13.25 an hour for the first three months, after which the hourly wage rises to \$14.

MacHamer said higher pay was the best way to keep employees long-term.

“I appreciate that they gave us a raise when they raised our prices on drinks, because if they’re making more money, we should too,” said barista Ann Averill. Even that’s not keeping Averill at the Mill, however:

She plans to leave San Francisco in August to pursue a career in dance.

“San Francisco is very tech, and I’m just not feeling it so much anymore,” she said. “I’m going to end up paying less rent there than I did here, which is crazy because it’s New York.”

Research does show that the more employees are paid, the longer they stay. A 2006 Harvard Business Review report noted links between higher pay and lower turnover and higher productivity. Minimum wage workers tend to leave jobs frequently,

That squares with the experience of Nichelle Owens, 22, who makes \$25 an hour cleaning upscale homes and apartments in San Francisco. She also works as a security guard at the Asian Art Museum of San Francisco, where the city pays her the same rate.

‘It’s not worth it’

Owens grew up in the city’s Western Addition and pays \$675 per month for a low-income apartment on Fillmore Street. Few of her friends can afford the rent on their own. They work minimum wage jobs at Foot Locker, Macy’s, Sephora, Ross and Old Navy.

Many live with their parents in the low-income community, Owens said. “That’s how they survive.” Others have moved east of Concord to Pittsburg or Antioch.

“Nowadays, I look at all these minimum wage jobs, and it’s not worth it,” Owens said. “Especially in retail — you have to

deal with all those crazy people; \$12.25 is not worth that.”

Owens used to work two minimum wage jobs, stocking Ross shelves at night and Macy’s during the day.

“When I was making minimum wage, I couldn’t get by,” she said. “You couldn’t even pay your bills.”

The minimum wage is set to rise to \$15 by July 2018, but Owens said it should be closer to \$20. At \$15, “you’re living on a dollar a day,” she said.

Bean Bag Coffee Shop, a few blocks away from the Mill, pays its cashiers minimum wage. When April Deutchle heard that her wage would go from \$12.25 to \$13 Friday, she cheered.

“Tips are how I pay my rent,” she said. For a full-timer working 40 hours a week, the 75-percent increase means almost \$100 extra in take-home pay a month.