Citizens League Report

Gathering Community Input on a Possible Minimum Wage Increase in St. Paul

Scoping Project, Phase 1
February 2018

Prepared by
Citizens League

Funded by
The Saint Paul Foundation

Citizens League
400 Robert Street North #1820
St. Paul, MN 55101

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Introduction and Scope of Work

Citizens League Scope of Work and Methodology

The Citizens League was commissioned by The Saint Paul Foundation to help the city of St. Paul, its employers and employees, and residents explore questions related to and potential impacts of raising the minimum wage. Although the St. Paul City Council passed a resolution in support of the project on November 8, 2017, the project was led by the Citizens League staff and was independent of the city of St. Paul.

The goals of this pre-work or scoping project were to identify the key questions, resources, and stakeholders that would need to be part of a larger *potential* effort in 2018 to answer these questions and propose an implementation plan for the city of St. Paul on this issue. This scoping project was exploratory and qualitative. *While there are some technical information provided herein, this is not a technical report*. This exploratory phase was intended to gain an understanding of underlying opinions and concerns around a possible minimum wage increase in St. Paul. Further, it was designed to gather insights on the issues surrounding the minimum wage in order to begin to develop ideas or hypotheses for a potential second phase that would require significant quantitative research and technical economic modeling.

The Citizens League's method for collecting qualitative data included individual interviews, group discussions/listening sessions, email submissions, and an anonymous online survey tool. Data collection began in late November 2017 and continued through early February 2018.

This scoping project had three main objectives:

1) **Identify key questions**. What are the critical questions that would need to be answered related to implementing a $15/hour minimum wage in St. Paul? What are the key questions that each of the important stakeholder groups' needs to have answered? For example:
    a. Would the wage increase impact the benefits that people on public assistance receive?
    b. How many low-income people in St. Paul who work elsewhere would not benefit?
    c. How many people who live elsewhere but work in St. Paul would benefit?

2) **Assess data and research availability**. What data and research currently exist to support an implementation study, and what is the potential for new research (cost, timeliness, etc.) that is specific to St. Paul? Examples:
    a. Could the University of Minnesota expand the research it conducted for Minneapolis to include the impact on St. Paul low-income residents and small businesses?
    b. Does the state labor economist or policy groups have additional information that can inform policy makers and other stakeholders in St. Paul and the East Metro Region?
    c. What can we learn from other regions?

3) **Identify stakeholders**. Who are the key stakeholders who would need to be part of a larger effort in 2018 to help answer these questions? How do we make sure the appropriate voices are included so that the effort and resulting recommendations are seen as credible?

The presumption is that this background pre-work would be prepared for all stakeholders who would be part of developing a strategy for implementing a potential minimum wage increase: St. Paul Mayor Melvin Carter, the St. Paul City Council, businesses, employers, organizations, residents, workers in St. Paul, etc. Depending on the outcome of the pre-work, a study committee or task force could be assembled in 2018 to begin to provide answers to these questions.

Overview of the City of St. Paul

Employment, Resident, Industry, and Cost of Living Data

Employment
The following is an overview of workforce data in select industry sectors in Minnesota, the metro region, and St. Paul. Using third quarter 2017 data from the Department of Employment and Economic Development (DEED), the total employment in Minnesota is 2,866,669 of which the metro region (St. Paul, Minneapolis, and Bloomington) make up 2,019,121; St. Paul alone has 182,532[1].

St. Paul Residents
The total population of St. Paul as of 2016 is 304,442, representing 116,656 households[2]. The number of St. Paul residents employed is 146,314[3]. The unemployment rate for the state, region, and St. Paul is 3.3%, 2.4%, and 3.1% respectively.

Industry Data
Within industries selected based on their average weekly wage (less than $800/week for full-time equivalent), in St. Paul 8,873 work in Administrative and Support and Waste Management and Remediation Services, 11,938 in Accommodation and Food Services, and 9,878 work in Retail Trade, bringing the total employed in these industries to 30,689, or 16.8% of the total number of employed in St. Paul[1]. Across the state, these same industries account for 23.6% of the total employment, and in Minneapolis and Bloomington they account for 10.5% of total employment in those regions[1].

Cost of living
The Cost of Living Tool on DEED's website provides a yearly estimate of the basic-needs cost of living in Minnesota by county, region, and statewide. Unfortunately, city data is not available, but since St. Paul is Ramsey County's largest city, we still found this data valuable to present.

Annual Costs Chart Comparison (assumes household with 1 full-time, 1 part-time, and 1 child)[4]

State of Minnesota	Ramsey County	Ramsey Comparison
Child Care - $5,616	Child Care - $7,152	+$1,536
Food - $9,156	Food - $9,504	+$348
Health Care - $5,664	Health Care - $6,252	+$588
Housing $11,232	Housing - $12,600	+$1,368
Transport $9,456	Transport - $9,192	-$264
Other - $5,952	Other - $6,456	+$504
Taxes $8,124	Taxes - $9,636	+$1,512
Total Cost – $55,200	**Total Cost - $60,790**	**+$5,590**
Hourly wage for average household to meet cost: $17.69	**Hourly wage for average household to meet cost: $19.48**	**+$1.79 per hour**

[1] Quarterly Census of Employment and Wages (QCEW) Data Tool
[2] https://www.stpaul.gov/books/population
[3] St. Paul Market Watch
[4] https://mn.gov/deed/data/data-tools/col/

In assessing available data and existing research on the minimum wage in Minnesota, the Citizens League reviewed a number of reports including the report Evaluation of a Minimum Wage Increase in Minneapolis and Hennepin/Ramsey County completed by the Roy Wilkins Center for Human Relations and Social Justice in 2016. (*See Appendix for full list of articles and reports the Citizens League reviewed.*)

In order to provide additional data as background in this report, we made a request to Thomas Durfee, PhD student at the University of Minnesota Department of Applied Economics, and he agreed to supply the following policy memo, found below on pages 5-11. This memo provides nonpartisan policy analysis and does not endorse or reject any proposed minimum wage policy.

Commuting and the St. Paul Job Market

Policy Memo from the Roy Wilkins Center for Human Relations and Social Justice
Thomas Durfee, January 2018

1. Motivation

Since the 1970s, Congress has increased the federal minimum wage every decade. Likewise, the Minnesota legislature increased the minimum wage at the same speed. Although there has been a recent increase in Minnesota's minimum wage, the effective full minimum wage rate in Minnesota is still not as high as the minimum wage in 1968, when controlled for the cost of living (Roy Wilkins Center, 2016). This motivated the city of Minneapolis to adopt its own minimum wage regime in the summer of 2017. In response to this new policy, the neighboring city of St. Paul has a vested interest in understanding the relationship between its own workforce and the surrounding area. To explore this relationship, this memo will highlight some of the key findings about labor market commuting using data from the US Census Bureau.

Section 2 will detail the underlying data source for this analysis. Section 3 will identify some limitations of this data and caveats for using this memo for further analysis. Section 4 will display the highlights of trends in commuting to work from St. Paul residents from 2010 through 2015 using publicly available data from the U.S. Census Bureau. Section 5 will display the highlights of trends of commuting into St. Paul to work regardless of residence. Section 6 will provide a brief summary of the results of sections 4 and 5.

2. Data

2.1 Source

The U.S. Census Bureau collects data from each state to generate nationwide economic and demographic descriptive data. To express trends in the distribution of workers throughout the country, the Census has produced the *On The Map* data tool. *On The Map* is a web tool that reports employment information from the Longitudinal Employer Household Dynamics (LEHD) Program at the geographic level. This program matches workplace data with residence data. This matching allows the research team to the count the zip code for the primary place of work for St. Paul residents, and likewise, the zip code of residence for St. Paul workers. This measurement takes place at the first day of the second quarter of each calendar year. The goal of the *On the Map* tool is to provide economic data with geographic specificity. The LEHD limits the level of demographic specificity available to the public to protect the privacy of LEHD respondents. This allows the research team to count the places of work of St. Paul residents according to income group, industry group, and age group (U.S. Census Bureau, 2018)

2.2 Detailed Source

The three income groups divide the St. Paul workforce by their average monthly income: those earning less than $1,250 a month, those earning between $1,251 and $3,333 a month, and those earning $3,334 or more a month.

The three age groups divide the St. Paul workforce by their age: those age 29 or younger, those between 30 and 54, and those age 55 or above.

The three industry groups divide the St. Paul workforce by North American Industry Classification System (NAICS) coding: those in goods providing industries (11, 21, 23, 33, & 34), those in trade, utilities, and transportation services (22, 42, 44, 45, 48, & 49), and those in service industries (51 – 56, 61, 62, 71, 72, 81, & 92). To protect the anonymity of respondents, only one demographic, industry, or income grouping may be expressed at a time, and cross sectional estimates of these groupings are not currently available.

3. Limitations

The LEHD Origin-Destination Employment Statistics (LODES) data from the U.S. Census Bureau includes demography, economic, and industry categories that are intentionally general to protect the privacy of respondents. Although more detailed geographic analysis is possible, this data is not able to provide a detailed demographic description of the St. Paul resident and worker populations. Furthermore, LODES data is collected at the beginning of the second quarter of every year. This does not represent seasonality of employment or the seasonality of residence.

The data for this memo is limited to the jobs identified by respondents as their primary job. If someone holds multiple jobs, only one of their jobs is counted for the purposes of this memo. Finally, LODES does not track the same workers or residents from one period to the next. This implies that workers may turn over from one job to another very quickly, or residents may relocate and be replaced from year to year, and this analysis would not be able to capture those changes.

4. St. Paul Residents

Although there are many St. Paul residents who commute to work in Minneapolis and Bloomington, the largest share of St. Paul residents work in St. Paul as well. This pattern remains true regardless of age group, industry group, or income group. This is especially noteworthy when considering the share of St. Paul residents that are in service sector jobs.

4.1 *St. Paul Residents Overall (Table 1)*

According to LODES, there were 129,000 St. Paul residents working in 2015. Compared to 2010, when there were 112,000 St. Paul residents working, this represents a 15 percent increase over a six-year period. Over 40,000 St. Paul residents (around 31% of residents) also worked in St. Paul. This relationship was consistent over the six-year period. Over 70,000 St. Paul residents worked in the tri-city area (St. Paul, Minneapolis, or Bloomington). This suggests that 55 percent of St. Paul residents work in the tri-city area. This relationship was also consistent over the six-year period.

Table 1

St. Paul Residents' Primary Place of Work

	2010	**2015**	**Growth (%)**
Total Primary Jobs	111,962	129,232	15.4
Top Five Cities			
St. Paul	36,054	40,465	12.2
Minneapolis	21,414	25,461	18.9
Bloomington	4,454	5,187	16.5
Eagan	3,400	4,029	18.5
Roseville	3,163	3,816	20.6

4.2 *Age*

According to the Roy Wilkins Center report on the simulated economic effects a proposed minimum wage policy in Minneapolis, although a large share of young workers are likely to earn the minimum wage or close to the minimum wage, the typical low-wage worker is just as likely to be young as middle aged or old (Roy Wilkins Center, 2016). Because low-wage workers may come from any age group, we find it useful to discuss the trends in commuting according to age.

4.2.1 Young (Table 2)

There were 36,000 St. Paul residents under the age of thirty working in 2015. Compared to 2010, when there were 33,000 St. Paul residents working, this represents a 9 percent increase over the six-year period. About 11,000 St. Paul residents under the age of thirty also worked in St. Paul (around 30% of young residents). This relationship was consistent in the six-year period. Over 18,000 St. Paul residents under the age of thirty worked in the tri-city area (around 51% of young residents). This relationship was also consistent in the six-year period.

Table 2

St. Paul Residents' Primary Place of Work: Under 30			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	32,957	35,951	9.1
Top Five Cities			
St. Paul	9,792	10,661	8.9
Minneapolis	5,423	6,183	14.0
Bloomington	1,545	1,572	1.7
Roseville	1,149	1,309	13.9
Eagan	888	1,082	21.8

4.2.2 Middle Aged (Table 3)

There were almost 69,000 St. Paul residents between ages 30 and 54 working in 2015. Compared to 2010, when there were almost 61,000 St. Paul residents working, this represents a 14 percent increase over a six year period. Over 21,000 St. Paul residents (around 31% of middle aged residents) also worked in St. Paul. This relationship was relatively consistent over the six year period. Over 38,000 St. Paul residents between the ages of 30 and 54 worked in the tri-city area (around 56% of middle aged St. Paul residents).

Table 3

St. Paul Residents' Primary Place of Work: Age 30 - 54			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	60,510	68,947	13.9
Top Five Cities			
St. Paul	19,230	21,113	9.8
Minneapolis	12,460	14,438	15.9
Bloomington	2,282	2,712	18.8
Eagan	2,091	2,266	8.4
Roseville	1,514	1,823	20.4

4.2.3 Older (Table 4)

There were over 24,000 St. Paul residents over the age of 54 working in 2015. Compared to 2010, when over 18,000 such residents were working, this represents a 32 percent increase over the six year period. Almost 9,000 of St. Paul residents over age 54 also worked in St. Paul. This represents around 36 percent of older residents, a 3 percentage point drop in the share of older St. Paul residents who work in St. Paul, from a high of 39 percent in 2013, although the absolute number of St. Paul residents working in St. Paul is generally increasing over the six year period. Around 14,000 St. Paul residents over age 54 who worked (around 60% of such workers) in the tri-city Area. This was relatively consistent over the six-year period.

Table 4

St. Paul Residents' Primary Place of Work: Over 55			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	18,495	24,334	31.6
Top Five Cities			
St. Paul	7,032	8,691	23.6
Minneapolis	3,531	4,840	37.1
Bloomington	627	903	44.0
Roseville	500	684	36.8
Eagan	421	681	61.8

4.3 Income *(Table 5)*

Section 4.1 of this memo discussed the overall trends in commuting for St. Paul residents, this section will focus on the trends in commuting for low-income residents. This is defined as workers earning less than $1,250 per month. To protect respondent anonymity, this income measure does not allow us to observe wage rates directly, and inferences on the wage rate of these workers would require further assumptions. If one assumes the typical worker works eight hours a day and 22 days in the month, this suggests a wage of $7.10 an hour. If one assumes this worker works eight hours a day, but only for 15 days in the month, this suggests a wage of $10.42. There is no way to test these assumptions using the publicly available LODES data, and other data sources are required. This measure is independent of existing disposable wealth, or earnings from investments.

Table 5

St. Paul Residents' Primary Place of Work: Earning Under $1,250			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	23,177	25,156	8.5
Top Five Cities			
St. Paul	7,977	8,271	3.7
Minneapolis	3,182	3,580	12.5
Bloomington	930	1,118	20.2
Roseville	988	1,094	10.7
Maplewood	740	817	10.4

There were 25,000 St. Paul residents with low earnings working in 2015. Compared to 2010, when 23,000 such residents were working, this represents a 9% increase over the six year period. Over 8,000 such residents from St. Paul also worked in St. Paul (33% of such working residents). Almost 13,000 of such working residents worked in the tri-city area, accounting for 52% of the workplaces of low earning St. Paul residents.

4.4 Industry *(Table 6)*

There were almost 95,000 St. Paul residents in 2015 working in the general services industry. Compared to 2010, when there were 82,000 such workers, this represents a 15% increase over the six year period. Of such residents, 34,000 also worked in St. Paul (36% of such workers). This is consistent over the six year period. Around 62% of St. Paul residents working in service industries worked in the tri-city area.

Table 6

St. Paul Residents' Primary Place of Work: Service Workers			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	82,396	94,935	15.2
Top Five Cities			
St. Paul	30,065	34,056	13.3
Minneapolis	18,178	21,633	19.0
Bloomington	3,052	3,580	17.3
Eagan	2,060	2,805	36.2
Roseville	2,091	2,560	22.4

5 St. Paul Workers

The St. Paul workforce tends to come from four cities, St. Paul, Minneapolis, Woodbury, and Maplewood. Although there has been overall increase in the total size of the St. Paul workforce, there have been a decrease in low-earnings workers, medium-earnings workers, young workers, and good-producing workers.

5.1 St. Paul Workers Overall *(Table 7)*

There were 177,000 St. Paul workers in 2015. Compared to 2010, when there were 159,000 workers, this represents an 11 percent increase over the six year period. Over 40,000 St. Paul residents (around 23% of workers) also worked in St. Paul. This relationship was consistent over the six-year period. A large share of St. Paul’s workforce (40%) reside in the quad-city area (St. Paul, Minneapolis, Woodbury, Maplewood). This share has increased by two percentage points over the last six years.

Table 7

St. Paul Workers' Residence			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	159,286	176,636	10.9
Top Five Cities			
St. Paul	36,054	40,465	12.2
Minneapolis	14,532	16,978	16.8
Woodbury	5,804	7,927	36.6
Maplewood	4,032	4,544	12.7
Eagan	3,702	4,314	16.5

5.2 Age *(Table 8)*

In 2015, there were 34,623 workers under the age of 30. Compared to 2010, when there were 35,310 such workers, this represents a 2 percent decrease over the six year period. Almost 11,000 of such workers also reside in St. Paul. Compared to 2010, when there were almost 10,000 such workers, this represents a 9 percent increase over the six year period. Although the number of young workers decreased over the six year period, middle aged workers in St. Paul increased from 92,000 in 2010 to almost 100,000 in 2015 (an increase of over 8%). The number of older workers increased at an even larger rate over the same period (a 32% increase), however this represented a smaller share of the St. Paul workforce. In 2015, there were 42,000 older workers in St. Paul, compared to almost 32,000 in 2010.

Table 8

St. Paul Workers' Residence: Under 30			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	35,310	34,623	-1.9
Top Five Cities			
St. Paul	9,792	10,661	8.9
Minneapolis	3,980	4,274	7.4
Woodbury	950	876	-7.8
Maplewood	821	807	-1.7
Eagan	692	729	5.3

5.3 Income *(Table 9)*

In 2015, there were 25,000 workers earning less than $1,250 a month. Compared to 2010, when there were almost 27,000 such workers, this represents a 7 percent decrease over a six year period. St. Paul residents comprised of 8,000 (33%) of these workers. There was an even faster decrease in workers earning between $1,251 and $3,333 a month. In 2015, there were almost 43,000 workers with medium earnings, compared to almost 51,000 such workers in 2010. This represents a 16 percent decrease in the number of such workers. St. Paul residents represented almost 14,000 of these workers (around 32%). Despite a decrease in the number St. Paul workers of low earning and middle earning, there was a sizable increase in the number of high earning St. Paul workers. In 2015, there were almost 109,000 St. Paul workers earning over $3,333 a month. Compared to 2010, when there were 81,000 such workers, this represents a 34 percent increase over a six-year period. St. Paul residents represented over 18,000 of these workers (17%).

Table 9

St. Paul Workers' Residence: Earning Over $3,333			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	81,410	108,899	33.8
Top Five Cities			
St. Paul	14,101	18,470	31.0
Minneapolis	6,714	9,580	42.7
Woodbury	3,747	6,387	70.5
Eagan	2,342	3,106	32.6
Cottage Grove	1,950	2,845	45.9

5.4 Industry *(Table 10)*

In 2015, there were almost 13,000 good producing workers in St. Paul. Compared to 2010, when there were over 13,000 such workers, this represents a 3 percent decrease over a six year period. Of these workers, 2,000 (16%) were also St. Paul residents. Over the same period, the number of St. Paul workers in the Trade, Transportation, or Utilities industries increased from almost 16,000 to almost 17,000 (an increase of 6%). St. Paul residents represented 4,000 (26%) of such workers. In 2015, there were 147,000 service sector employees in St. Paul. Compared to 2010, when there were 130,000 such employees, this represents an almost 13 percent increase over a six-year period. Of these workers, 34,000 (23%) were also St. Paul residents.

Table 10

St. Paul Workers' Residence: Service Sectors			
	2010	**2015**	**Growth (%)**
Total Primary Jobs	130,185	147,003	12.9
Top Five Cities			
St. Paul	30,065	34,056	13.3
Minneapolis	12,436	14,623	17.6
Woodbury	4,988	7,142	43.2
Maplewood	3,359	3,849	14.6
Eagan	3,144	3,663	16.5

6 Workplace / Residence Comparisons

Although many St. Paul workers reside in a handful of cities, this does not describe all St. Paul workers. Many St. Paul workers reside in cities throughout Minnesota. This implies that the earnings effects of a St. Paul minimum wage policy are likely to spread outside of the city, rather than remain concentrated within St. Paul. Similarly, many St. Paul residents work in Minneapolis, and are likely to see an earnings effect due to its recent minimum wage policy.

Although there has been an increase of young residents from 2010 to 2015, those same ages represent a decreasing number of St. Paul workers. Likewise, although there is an increase in the number of St. Paul residents with low and middle earnings, this group sees a notable decrease in the numbers among St. Paul workers. This publicly available data suggests that there are ongoing changes in the St. Paul labor market, and a possible minimum wage policy would have dispersed economic effects. Although such modeling such effects might be fruitful, it is outside of the purview of this memo to provide such modeling.

7 Sources

U.S. Census Bureau. (2018). LEHD Origin-Destination Employment Statistics Data (2002-2015) [On the Map 6.5]. Washington, DC: U.S. Census Bureau, Longitudinal-Employer Household Dynamics Program, accessed on January 2018 at https://lehd.ces.census.gov/data/#lodes. LODES 7.3 [20160219]

Roy Wilkins Center for Human Relations and Social Justice. (2016). Evaluation of a Minimum Wage Increase in Minneapolis and in Hennepin/Ramsey County. University of Minnesota, Economic Policy Institute, Rutgers University, Howard University, St. Cloud State. Presented to the City of Minneapolis Council of the Whole in October 2016.

Community Input on Key Questions

From November 2017 through early February 2018, the Citizens League met with 227 individuals through interviews and listening sessions. Over 100 responses were also received through an anonymous online survey in addition to several emailed submissions.

The main objective of this data collection was to collect key questions from various individuals, groups, and stakeholders. This exploratory phase was intended to gain an understanding of underlying opinions and concerns around a possible minimum wage increase in St. Paul.

When the Citizens League met with community members, we framed the discussion around a possible minimum wage increase and asked open-ended questions similar to the questions in our anonymous online survey:

- When you hear that the minimum wage may be increased in St. Paul, what excites you the most?
- When you hear that the minimum wage may be increased in St. Paul, what concerns you the most?
- What are your main questions concerning a potential minimum wage increase in St. Paul?

In the interviews and listening sessions, we did not mention the figure of $15 to see how participants would respond. That said, the majority of participants did assume a $15 minimum wage in their responses. All were aware that St. Paul has yet to adopt an ordinance which could have various phases, tiers, and exemptions.

Since many assumed $15, questions of **how much for whom**, **who should pay** for the increases in wages, and **how and how quickly an ordinance should be implemented** were the main items discussed. Below are summaries of the various perspectives organized by industry and/or sector.

Key Questions by Industry/Sector (listed in alphabetical order)

1. DAY TRAINING AND EMPLOYMENT SERVICES FOR PEOPLE WITH DISABILITIES

There are nonprofits that provide a variety of center- and community-based employment opportunities and job training services to people who have intellectual disabilities, physical disabilities and/or mental health conditions. Providers of these day training and employment service programs are licensed under Minnesota State Statute 245D. These services are procured on behalf of program participants by Ramsey County or other counties in Minnesota.

The common industry practice for these nonprofits is to use a United States Department of Labor (DOL) special minimum wage certificate that enables people with disabilities to be paid based on their productivity levels, as opposed to someone who does not have a disability. Section 14(c) of the Fair Labor Standards Act (FLSA) authorizes employers, after receiving a certificate from the DOL's Wage and Hour Division to pay special minimum wages—less than the Federal minimum wage—to workers who have disabilities for the work being performed.

According to the DOL website, "a worker who has disabilities for the job being performed is one whose earning or productive capacity is impaired by a physical or mental disability, including those relating to age or injury. Disabilities which may affect productive capacity include blindness, mental illness, developmental disabilities, cerebral palsy, alcoholism, and drug addiction." Section 14(c) does not apply unless the disability actually impairs the worker's earning or productive capacity for the work being performed.

However, some providers of these services claim that program participants with disabilities earn anywhere from the state's minimum wage to prevailing wages regardless of productivity levels or where they work. They and others have benefitted from a phased increase in the state minimum wage from $7.25 per hour on July 31, 2014 to $9.65 per hour on Jan. 1, 2018 (for those working for large employers). While some people with disabilities working for private businesses are earning the state minimum wage or more, typically co-workers without disabilities in similar jobs are earning higher wages. There are also individuals with disabilities who work in St. Paul on contracts with state or other government agencies that require payment of the state minimum wage. Providers for these contracts are unable to routinely adjust billing rates when the minimum wage increases.

Many area businesses are experiencing a workforce shortage, particularly for entry level jobs. People who have disabilities are an underutilized resource with significantly higher unemployment or underemployment rates than the general population. Some businesses are consciously hiring people with disabilities as a strategy for dealing with their workforce shortage.

The Citizens League met with nonprofits who provide program participants—people with qualified disabilities—with opportunities to work for a variety of businesses and government agencies in St. Paul and other locations. Below are their concerns and questions.

Key Questions

Availability of Jobs for People with Disabilities

- For those currently earning the state minimum wage will there continue to be jobs available for people with disabilities or will they be among the first to lose jobs if businesses use a layoff strategy to reduce payroll or contract costs?

- What is an employer's incentive to hire a person with a disability when he/she can hire someone without a disability who can do the job faster for the same rate?

- What opportunities for people with disabilities would go away with another significant increase to the minimum wage?

- If there is a contractual conflict between paying the state minimum wage and a city minimum wage, which standard would apply?

State Reimbursement Rates and Staff Requirements
Nonprofit providers who provide employment services and job training to people with disabilities are reimbursed by the state. Since reimbursement rates are regulated and set by the state, if the minimum wage were to increase, these nonprofits argue that they would not be able to raise their revenue rates nor cover the increased cost.

In addition, unlike businesses which can lay off employees to cut expenses in order to pay other employees the increased wage rate, these nonprofit providers cannot lay off employees because of the requirement to meet "staff to client ratios" governed by the state through its licensing rules. One such nonprofit provider informed the Citizens League that it would need to maintain the current staff levels in order to meet these staff-to-client ratios.

These nonprofits would need to rely on action from the state to increase reimbursement rates.

- How would these nonprofit providers continue to provide needed employment and job training services to people with disabilities if the state reimbursement does not increase?

2. FRANCHISEES, LOCALLY-OWNED, MICRO AND SMALL BUSINESSES

Starting 2014, the Affordable Care Act required employers defined by federal regulations as "applicable large employers" (ALEs) to make insurance available to their employees or pay a penalty. The federal government defined ALEs as any company or organization that has an average of at least 50 full-time employees. For this purpose, a full-time employee is someone who works at least 30 hours a week.

Also in 2014, the Minnesota legislature increased the state minimum wage. Effective in August 2014, it was phased in through 2016:

- Large employers: $8.00 per hour starting on August 1, 2014; $9.00 on August 1, 2015; and $9.50 on August 1, 2016.
- Small employers: $6.50 per hour starting on August 1, 2014; $7.25 on August 1, 2015; and $7.75 on August 1, 2016.

On January 1, 2018, the state minimum wage increased again, $9.65 for large employers and $7.87 for small employers. Effective also on January 1, 2018, the city of St. Paul required all employers with employees working in St. Paul to provide earned sick and safe time (ESST) to their employees.

In addition to this, some business owners saw dramatic increases in their property taxes. Some businesses noted other city expenses such as city code compliance.

Since franchisee and small businesses operating in St. Paul are still adjusting to these changes—federal, state, and city level changes—in a relatively short amount of time, many are disappointed that the city is considering passing a city ordinance to increase the minimum wage, possibly to $15. Many view these changes as not only harmful to their current business but that these changes are creating a climate that is not welcoming to new businesses.

Franchisees

Two franchise owners shared that while they are associated with a widely-known national brand, what most people do not know is that their prices are set at the national level, which prevents them from adjusting prices locally to offset new expenses like an increase to the minimum wage. They can only reduce staff and/or staff hours to find savings to cover the increased cost in labor. Because some franchisees operate in multiple locations with different rules, one owner noted how he can no longer hire a local bookkeeper to manage new administrative and financial requirements. He now has to hire a savvier but more expensive outside firm to keep track of operations across his multiple locations.

Locally-owned small businesses

Other small businesses like locally-owned bookstores in St. Paul cannot adjust the price of books since these are set by the publisher. Like franchise owners, these bookstores can only reduce staff and/or staff hours to find savings to cover the increased cost in labor.

A small business that operates in an industrial area of St. Paul currently employs 35 people, many of whom are individuals that have gone through the criminal justice system and/or are in recovery looking to rebuild their work experience. The owner is concerned that if the minimum wage were to increase to $15, he could no longer afford to take a chance on these individuals, although this is his preference. Instead, he will need to hire someone with a solid work history for higher levels of productivity and reliability.

A small family-run restaurant mentioned that with an increase to the minimum wage, it would no longer be able to provide young people summer part-time jobs. It would have to hire fewer people who could handle more responsibilities.

Many small businesses operate on very thin margins and do not have room for increased payroll. Even for businesses that are paying some employees near or at $15 now are concerned they will not be able to provide pay increases moving forward.

Immigrant- and minority-owned micro/small businesses
Some immigrant-owned businesses were very insistent that they did not want a $15 minimum wage increase because they cannot financially support the increase in labor costs. Like most small businesses, many immigrant-owned businesses mentioned that they cannot afford to hire someone to figure out new policy changes in order to comply with them. Some immigrant business owners were concerned that not all immigrant-owned businesses were aware of the potential minimum wage increase and may not be prepared to accommodate it when it happens.

While some small businesses talked about how it would be easy to relocate to a nearby city to remain profitable, a minority-owned business on the West Side was noted as being a community anchor in its neighborhood. It would be difficult to move since the owners live and operate their business within the community they serve.

Key Questions

- Some small businesses offer health insurance and other benefits that they know their employees value more than a few more dollars per hour. How can this be taken into consideration?
- If the minimum wage increases to $15, why would a small business take a chance on younger, less experienced workers or low-skilled adults with little to no work history?
- If small businesses are expected to shoulder these costs, what can the city do to help offset these new expenses? Lower property taxes?
- Since the city is one of the largest employers, how does it plan to accommodate for an increase in the minimum wage? Increase taxes?
- Instead of penalizing those who can't, can the city offer incentives to get those who can pay more to do so?
- How will the increase in the minimum wage affect small immigrant-owned and minority-owned businesses?
- How will an increase in the minimum wage affect co-op micro business spaces like Hmong Village?
- Would an exemption be possible for micro businesses that hire 9 people or fewer?
- What do we know of the effects of sub-contract work within micro businesses in cities that have passed $15?
- What is the number of low-wage or minority workers that would see benefits?
- How does an increase in the minimum wage affect families who are on public assistance?
- How will an increase in the minimum wage impact health insurance for individuals or small businesses?
- How will business sizes be determined?
- What is the maximum phase-in time to allow small business to adjust including time for attrition before possible layoffs?

3. HOME HEALTH CARE, NURSING HOMES, AND SENIOR HOUSING

Home Health Care

Transitioning the fast-growing home care industry to a more stable, higher-wage staffing model is essential if our nation is to meet the long-term needs of both the caregiving workforce and Minnesota's aging population. Since hospitals provide the most expensive delivery of care, a strong network of home health providers who can deliver care in the home is essential to reducing costs overall. In a continuing effort to keep people in their homes and out of these higher-cost facilities, there has been a growth in small, licensed home care agencies in Minnesota.

However, the impact of new minimum wage increases at the state and city level along with the overall increase in costs to do business is creating a very difficult business climate for providers of home and community-based services such as personal care and home health aides.

Medicaid: Medicaid is a joint federal and state program that helps low-income individuals and families pay for the costs associated with medical and long-term custodial care.

Since home care providers are reimbursed at the current Medicaid rate per hour, which is $17.40, they argue that a minimum wage increase to $15 does not allow them to remain financially sustainable given other costs associated with this business.

Personal care assistants, also known as caregivers, home health or personal care aides, give assistance to people who are sick, injured, mentally or physically disabled, or the elderly and fragile. They work in the home and help their clients with daily activities, such as bathing and bathroom functions, feeding, grooming, taking medication, and some housework. Hours can be long and the work can be emotionally, mentally, and physically challenging, which contribute to the high turnover that some providers experience. One provider noted the financial and opportunity cost to train new employees on a regular basis.

Because the job duties of a home health care worker can be difficult or undesirable, home care providers would like to see this industry become a higher-wage model because it has been extremely difficult to attract and retain high-quality employees. Currently, there are more home health care job openings than there are workers to fill them and even when they are filled, workers leave these positions when they find easier work or work that is held in higher regard. Providers are also concerned about the client side since they know a stable high quality workforce would increase client satisfaction.

The only way home health care providers can stay in business to meet the growing needs of an aging population is for the Medicaid reimbursement to increase as the minimum wage increases. Unfortunately, providers do not anticipate the Medicaid reimbursement rate to increase soon.

Key Questions

- How can home health care providers continue to operate in the St. Paul if the minimum wage increases to $15 when Medicaid reimbursement remains at $17?

- What administrative relief, if any, will be given to home health care providers who operate across the state when there are different minimum wage levels to account for?

- Raising the minimum wage to $15 would make some personal care assistants (PCAs) ineligible for Medical Assistance, MinnesotaCare, Supplemental Nutrition Assistance Program (SNAP), Energy Assistance, and Free/Reduced Lunch for their kids at school. Currently, personal care attendants (PCAs) are paid about $12.00/ hour. Will in increase in the minimum wage be enough to risk the loss of these benefits?

Nursing Home and Senior Housing

Investments in our nation's nursing home workforce are ever more critical as we face a looming care crisis: the number of adults who will need long-term care is ballooning, but the pool of people to provide it remains stagnant. While many older adults express a preference for home and community-based settings, for those who cannot be cared for safely at home, nursing homes remain the best option. We need to ensure that all nursing homes provide their residents a high quality living environment along with quality care. That requires a well-trained, compassionate, and stable nursing home workforce.

According to the 2017 salary survey of long-term care providers by Care Providers of Minnesota, LeadingAge, and Healthcare Human Resources Association of Minnesota, Inc., the Citizens League was provided with a list of the largest volume positions—for both nursing facilities and senior housing—in St. Paul that would be subject to the minimum wage. For nursing facilities, these included nursing assistants, dietary aides, and housekeeping and laundry aides. The majority of these positions make less than $15, with the lowest-paid nursing assistant making around $12.75 an hour, the lowest-paid dietary aide making $10 an hour, and the lowest paid housekeeping and laundry aide making $11.

Medicare: Medicare is a federal program attached to Social Security. It is available to all U.S. citizens 65 years of age or older and it also covers people with certain disabilities. It is available regardless of income.

In senior housing—facilities that do not require a skilled nursing staff—this list included personal care providers, housekeeping and laundry workers, and dietary staff (servers). Again, the majority of these positions make less than $15, with the lowest-paid personal care provider making $11, the lowest-paid housekeeping and laundry worker hourly making $10.37 and the lowest-paid dietary staff hourly wage making $9.73.

Since these are just the largest volume positions, there are other positions not included that earn $15 or less.

Key Questions

Reimbursement by Medical Assistance

Nursing homes are highly regulated. All nursing facilities in Minnesota must be licensed by the Minnesota Department of Human Services (DHS). Qualifications for licensure are listed in Minnesota Statutes chapter 144A. These include meeting minimum health, sanitation, safety, and comfort standards. MDH is also the state agency charged with certifying that nursing facilities meet federal standards for participation in the Medical Assistance (MA) program and the federal Medicare program. The Minnesota Department of Human Services (DHS) is responsible for administering the MA reimbursement system for nursing facilities and for establishing the reimbursement rates for each facility.

Although DHS sets facility reimbursement rates based on the cost of providing care to residents, there is a limit on care-related costs. That is, if a facility's care-related costs are greater than its limit, the facility's rate would not reflect the portion of the costs in excess of the limit. The reimbursement of care-related costs is further complicated because DHS sets rates using facilities' historical cost reports. Because it is backward-looking, there is at least a 15-month to two-year lag between when a facility accrues a cost and when the cost is reflected in the facility's rate. That is, it is possible that today's costs of care may be reimbursed at rates that are two years behind.

Rate Equalization Law

In addition, Minnesota's rate equalization law prohibits nursing facilities that participate in the MA program from charging private pay residents rates higher than the rates of residents with MA. Nursing facilities are only allowed to charge private-pay residents a higher rate for a single room and for special services that are not included in the daily rate if MA residents are charged separately at the same rate for the same services in addition to the daily rate paid by DHS. Due to this, private-pay rates are set at the level of the MA rate.

While some nursing facilities may be able to increase wages of employees who are making less than $15, this will create pressure to increase wages for those working above them who are in supervisory roles.

- Given the reimbursement constraints that nursing facilities have—reimbursement limits, inability to recoup current costs, and rate-equalization law—what relief, if any, can be provided to nursing facilities?

Staff Requirement
Finally, a nursing and senior home facilities must meet staff requirements dictated by the federal government and the state. For example, a nursing home must have on duty at all times a sufficient number of qualified nursing personnel, including registered nurses, licensed practical nurses, and nursing assistants to meet the needs of the residents at all nurses' stations, on all floors, and in all buildings if more than one building is involved. This includes relief duty, weekends, and vacation replacements.

- Unlike other businesses that can lay off workers or reduce employee hours to find cost savings to put towards wage increases, these facilities cannot. How can nursing and senior home facilities continue to meet staff requirements as wages and other costs go up when they are not getting reimbursed at current costs?

4. LARGE EMPLOYERS

Large employers (500 employees or more) that we spoke to had few employees that were making less than $15 an hour. This included Allina Health, Ecolab, HealthPartners, Securian, US Bank, and Wells Fargo. Both US Bank[5] and Wells Fargo[6] recently announced that each will be raising the minimum wage to $15 for all hourly employees.

One business mentioned that financial impact could result if/when suppliers/vendors who have a larger employee base of minimum wage earners pass along price increases. An issue that will need to be resolved is wage compression: pay inequities that arise when newer employees get higher wages than those who have been there longer.

While a possible minimum wage increase to $15 would not greatly impact most large employers in St. Paul, they did express concern how it would impact small and mid-size business, which could create an unfriendly business environment in St. Paul. Some believe that St. Paul has done a very good job creating a more livable city with an emphasis on the arts, entertainment, and other amenities. Large employers feel the city now needs to focus on attracting employers. This starts with retaining current businesses.

5. LOW-WAGE WORKER ADVOCATES

Just this month, the Metropolitan Council released a report entitled, "The Twin Cities Region's Areas of Concentrated Poverty Endure." The report's main focus is on areas of concentrated poverty, defined as census tracts where at least 40% of residents live with incomes below 185% of the federal poverty threshold (a family of four with income below $44,875 or a single adult with income below $22,352, for example). It cites research that concentrated poverty may have an overarching impact on residents, even if they may not be low-income, such as reducing potential economic mobility and negatively affecting their overall health and well-being. Availability and choices of jobs and schools are also tied to where one lives. Because people of color face race-specific barriers that can limit their housing choices, the report finds that people of color are more likely to live in areas of concentrated poverty than white residents, regardless of income. According to the report, "the cities with the highest shares of residents in poverty were St. Paul (40.8%), Brooklyn Center (39.5%), Columbia Heights (39.1%), Minneapolis (37.9%), and Anoka (37.3%)." What's more, the report adds that "St. Paul added six new census tracts identified as Areas of Concentrated Poverty, going from 32 in 2006-2010 to 38 in 2011-2015."

The Citizens League heard from many low-wage work advocates ranging from advocacy organizations to community organizations to labor unions. One organization that the Citizens League met with was the worker-led organization Centro de Trabajadores Unidos en Lucha, known as CTUL. CTUL organizes low-wage workers from across the metro to advocate for fair wages and better working conditions.

Fair wages: Wage levels and wage-fixing mechanisms that provide a living wage floor for workers.

Through an interpreter, the Citizens League interviewed a low-wage worker who provides cleaning for a large retailer in St. Paul. When she started this job there 14 years ago, her starting hourly rate was $7.25. Her current rate is $10.75. She does not receive any benefits. She was initially given four hours a day but now she works five hours a day, seven days a week. She does not get an opportunity to work overtime.

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[5] https://www.usbank.com/newsroom/news/us-bank-to-invest-in-employees-community-and-customers-as-a-result-of-tax-reform-package.html

[6] https://www.nasdaq.com/article/wells-fargo-to-raise-minimum-wage-to-15-in-2018-20171220-01117

Some of her co-workers work fewer hours. She likes her job because she can walk to work. The worker informed me that she does not work directly for the retailer but for a cleaning company that has been contracted to provide cleaning services. Because cleaning companies often get selected based on cost, it is to their advantage to hire workers for as little as possible. She added that since the cleaning company is not based in St. Paul, she does not have earned sick and safe time.

This worker, like all the low-wage workers we met with, and the organizations that support them, are advocating for a minimum wage increase to $15 with the shortest phase-in time as possible. Some did not think $15 was enough but agreed it was a good place to start. They also felt strongly that no one should be exempted including youth workers, believing teens should be able to make the same as adults, knowing that some support their families.

Many low-wage workers are trying to get out of poverty and wondered how anyone can do this without a better functioning transit system and more affordable housing. They see the increase in the minimum wage as just one piece of a much larger problem that they face. While the question of how a wage increase could impact the benefits that people on public assistance receive is asked below, it should be noted that some low-wage workers took offense to this question. They interpreted the question as "dangling a safety net over our heads" wanting to keep them in poverty and on public support.

Key Questions

- How can someone live and support a family on $10? Or even at $15?
- Even if the minimum wage were to increase, how do we think about transportation and affordable housing as other tools to lift people out of poverty?
- How can working conditions be improved for workers in St. Paul when the companies that hire them are not located in St. Paul?
- Would the wage increase impact the benefits that people on public assistance receive?
- How many low-income people in St. Paul who work elsewhere would not benefit?
- How many people who live elsewhere but work in St. Paul would benefit?

6. MANUFACTURING

Of the 7,600 manufacturing companies in Minnesota, about 5,800 have fewer than 50 employees. Some manufacturers in the metro area pay near or even above $15 an hour for a fully-trained employee. But all manufacturers—even smaller contract manufacturers—provide stable employment, benefits, and training with opportunities for upward income mobility.

In recent years, manufacturers have found it increasingly difficult to hire enough employees who already have required skills. As a result, manufacturers today hire candidates and provide their own in-house training programs. Some even send new employees to school (like Saint Paul College, Hennepin Technical College, etc.) at the company's expense so that employees get the training they need. Once fully trained, an employee will be on a path to making a living wage. The development of the needed skills may take time so some manufacturers are seeking a training period.

Those in the manufacturing industry believe that St. Paul can and should try to attract more small manufacturers as a way to provide living-wage jobs to those who are underemployed or unemployed.

Living wage: A living wage is the minimum income necessary for a worker to meet basic needs.

It should be noted that some manufacturers do not support a minimum wage increase as a standalone policy. They believe addressing poverty should be the primary focus. They do not feel that it can be effectively addressed by a minimum wage increase alone.

Although unemployment in Minnesota is at its lowest since 2000[7], labor participation in St. Paul could be higher.[8] Hiring has been such a challenge that some manufacturing companies are using multiple staffing agencies to find candidates for open positions. With this comes additional costs. A manufacturer that pays an employee $12 an hour may also have to pay $6 to the staffing agency for a total of $18 an hour to fill just one position.

If lifting people out of poverty is the goal, some employers think the city should improve collaborative efforts among the government, businesses, and industries—especially manufacturers—who hire critical groups of people (disabled, underemployed, unemployed, returning from correctional institutions, single mothers, etc.). This ought to include comprehensive workforce development programs coupled with specific support to small industry employers. Raising the minimum wage alone may contribute to the "cliff effect" and may not help the people who need it the most.

Cliff effect: This phenomenon occurs when people begin to earn above the limits set by the state and becomes ineligible for subsidies for food, housing, child care and other benefits. For low-income families, this means earning more could actually put them in a worse place financially.

Key Questions

- Should a $15 minimum wage ordinance be proposed, would St. Paul consider a carve-out for manufacturing trainees such as a 12-month ramp-up period?
- If someone is not currently in the workforce now and relies on public assistance, how much of a minimum wage increase is necessary to convince her/him to return to work?
- If someone is not currently in the workforce now, what are other barriers—such as childcare, disabilities, health and addiction, transportation, etc.—that are preventing her/him from returning to work?

[7] https://www.twincities.com/2017/12/21/minnesota-unemployment-rate-drops-to-3-1-percent/
[8] https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk

7. PRIVATE EDUCATIONAL INSTITUTIONS

There are five private colleges and universities (Concordia, Hamline, Macalester, St. Catherine and St. Thomas) in St. Paul. In Minneapolis, there are two. Because Minnesota State students are considered state employees and the University of Minnesota is not within the jurisdiction of the city, private colleges in St. Paul would be uniquely impacted by a minimum wage ordinance, and they raise this public/private discrepancy as a fairness issue.

Most regular full-time and part-time workers at the private colleges and universities are at or near $15 an hour, and consequently the institutions support the concept of a $15 minimum wage for these employees. Their concern is mainly with part-time undergraduate student workers who, on average at one university, work 7.5 hours a week and make $10.40 an hour. Depending on the school and the time of year, there can be as many as 6,000 undergraduate part-time workers on these five campuses. Private colleges also noted the need to increase pay for supervisors if student wages are increased. It is worth noting that the five private colleges collectively are St. Paul's fourth-largest employer.

Since private colleges would rather not increase tuition to meet a minimum wage increase, they are concerned that they will have to reduce the number of jobs, number of hours, or both. This could mean lost opportunities for learning, especially in cases where-these jobs are internships and lab positions. Because work-study amounts are awarded to students as part of a financial aid package as a lump sum, it is important to assess the true impact to a student of a minimum wage. Students would not necessarily receive more money. Instead, their hours could be limited.

There is a perception that private colleges have large endowments on which they can draw to meet student wage increases, but the colleges say most of their endowment funds are restricted to specific kinds of expenses and spending.

Recently, private colleges participated in a city-related project on payment in lieu of taxes (PILOT) that explored the possibility of a program in which tax-exempt properties would make voluntary contributions to the city. If the city enacts a minimum wage ordinance that includes part-time undergraduate student workers, the colleges may not be able also to make a voluntary contribution to the city.

Private colleges and universities are aware that they will have to review food service contractors who may employ workers at minimum wage.

Key Questions

- Can all colleges and universities operating in St. Paul be treated the same, when it comes to the minimum wage, regardless of public or private?

- Is there an openness on the part of the city to consider a different minimum wage structure (e.g., up to $13 an hour) for part-time student employment on college campuses?

8. RESTAURANT AND HOSPITALITY – ONE WAGE, NO TIP CREDIT/PENALTY

Many of the restaurants workers we met with who support a single wage increase without a tip penalty identified themselves as being part of the Restaurant Opportunities Centers United (ROC). The mission of ROC is to improve wages and working conditions for the nation's restaurant workforce. ROC members are leading the national *One Fair Wage* campaign to abolish the subminimum wage for tipped workers. Minnesota is one of seven states without a subminimum wage for tipped workers. In Minnesota, tipped workers are subject to the same minimum wage standards as non-tipped employees (some states have a subminimum wage as low as $2.13 before tips are added in.) While the restaurant industry is one of the fastest growing industries in the country, it has some of the lowest wage jobs. One Fair Wage proponents argue that since St. Paul does not currently have a two-tiered system—where some people are paid a subminimum wage relying on tips or their employers to make up the difference to get to the full minimum wage—it would be unwise for St. Paul to create a tip penalty, which would create a two-tiered system that necessitates substantial enforcement by the city.

By supporting a single minimum wage increase for all restaurant workers, proponents believe this will have lasting long-term impacts on worker retention, mobility, industry productivity, and go a long way to closing gender pay gaps as well as increasing the purchasing power of workers in this industry by providing them with more stable, equitable pay.

> **Tip credit/tip penalty**: An employer can include an employee's tip earnings toward its minimum wage obligation for tipped employees equal to the difference between the required cash wage and any proposed minimum wage increase. Those who support this system refer to it as a tip credit. Proponents of a One Fair Wage refer to this as a tip penalty.

Key Questions

Financial Security and Discrimination
There are many kinds of low-wage tipped workers in St. Paul including baristas, bussers, counter service workers, restaurant support staff and non-contract delivery people that will be impacted by a minimum wage ordinance. Not all tipped workers make a consistent income. Because of these concerns, One Fair Wage proponents expressed the following for consideration:

- How can restaurant workers—both front and back of house—who only make the current minimum wage ($7.87 for small employers and $9.65 for large employers) keep up with the cost of living if St. Paul does not pass an increase?

- As the cost of living continues to increase, how will a minimum wage increase impact the financial wellbeing of tipped workers in the long run?

- How would a subminimum wage for tipped workers impact tipped wages relative to the minimum wage?

Enforcement and Wage Theft

- Since some restaurants have multiple locations across the metro area, how will St. Paul accommodate businesses who may have additional administrative work to comply with different city ordinances?

- While employers are legally required to make up the pay of an employee if their tips plus base wage do not arrive at the full minimum wage, how will St. Paul enforce this to prevent wage theft—the illegal practice of not paying workers for all of their work?

- How would St. Paul enforce a two-tiered wage system? Tip tracking and reporting?

- How will St. Paul protect workers from employer retaliation for reporting possible employer misconduct?

Service Charges

The U.S. Department of Labor states that service charges, a compulsory charge for service (for example, 15 percent of the bill) is not a tip. Such charges are part of the employer's gross receipts. Sums distributed to employees from service charges cannot be counted as tips received, but may be used to satisfy the employer's minimum wage and overtime obligations under the Fair Labor Standards Act (FLSA).

- How will St. Paul guarantee transparent use of service charges and protect workers right to compensation for their services?

Sexual Harassment

One Fair Wage proponents cite that since 70% of people who work in the restaurant industry are women, states that have a subminimum wage for tipped workers have higher incidents of sexual harassment reported from tipped workers. Tipped workers are likelier to experience and put up with sexual harassment and other kinds of discrimination if they depend more on tips and less on enforceable wages.

- If St. Paul does enact a tip penalty, how will they protect service industry from or at the very least, monitor any increases in sexual harassment?

9. RESTAURANT AND HOSPITALITY – FOR TIP CREDIT

Various reports indicate that 60 percent of restaurants fail within three years or fewer. There are many variables that contribute to a restaurant's failure but with labor accounting for more than one third of overall expenses, this is an area that most restaurants, regardless of size, worry about. A key to success is to maintain acceptable profit margins year after year. The range for restaurant profit margins span anywhere from 0-15%, with the most common range falling between a 3-5%.

Due to thin profit margins, many restaurant owners and restaurants workers are concerned that an increase in the minimum wage would result in reduced staffing or a restaurant's closure. Owners are concerned about being able to operate a profitable business and workers are concerned about their jobs, especially those who have made service a career. In other cities, some owners are experimenting with eliminating tipping entirely in response to increases in the minimum wage and substituting with service charges that owners can share with other employees. Some servers fear that this will happen in St. Paul. (Minnesota law states that tips are the sole property of the direct service employee and employers cannot require employees to share their tips with indirect service employees.)

Minnesota is one of seven states where tipped workers are subject to the same minimum wage standards as non-tipped employees. (Some states have a subminimum wage as low as $2.13 before tips are added in.) In our listening sessions, we learned that tipped employees are some of the highest-paid hourly employees in table-service restaurants, earning at least $18 per hour with minimum wage and tips, and in some examples earning more than $40 per hour. Although many kitchen employees earn the minimum wage or more, average pay in the kitchen may be substantially lower than what tipped employees earn with their wage and tips combined.

By increasing wages for minimum wage employees who earn tips—likely the highest-earning employees in the restaurant—some argue that this may leave an owner little money to raise the wages for other workers. This labor increase may force some owners to raise menu prices to levels that guests may be unwilling to pay. Some noted that this has resulted in restaurant closures and a "no tip" business model in some cities that have passed a minimum wage increase without a tip credit, resulting in less income for restaurant staff. Therefore, some restaurant owners and workers are asking for a "tip credit." By allowing a tip credit, an employer can include an employee's tip earnings toward its minimum wage obligation for tipped employees equal to the difference between the required cash wage (for a small employer in Minnesota, it would be $7.87) and the proposed minimum wage of $15 an hour. Opponents of this idea call this a "tip penalty."

The Citizens League heard from more service workers than restaurant owners who demanded a tip credit. A top reason for not wanting a wage increase was so their employers could better pay kitchen staff.

Because it is customary practice to tip as a percentage of the total dining bill, tipped employees may earn more money if an owner chooses to increase menu prices to accommodate a wage increase. This may further increase the disparity and the inequity between wages in the kitchen and the total earnings in the front of the house. Practically speaking, many restaurant owners did not think they could or would increase prices due to the competitive pressures.

Key Questions

- If the minimum wage is increased to $15, is there willingness to reduce the tip credit wage to say $5.00? (Federal is $2.13 and Wisconsin is $2.33)

- Will sexual harassment really change with a higher minimum wage for tipped workers since some studies show that most harassment reported comes from coworkers within the restaurant—rather than customers who are leaving a tip?

- Has anyone against a tip credit presented a proforma based on a yearly profit and loss for a full-service restaurant (not a counter service model) that proves that a large increase in labor costs would not be destructive to the business as a whole?

- How much does the restaurant community provide to the city in tax revenue?

- If St. Paul chooses to acknowledge taxable tipped income in the way of a tip credit, do they anticipate that more restaurants would likely open in St. Paul or Minneapolis?

- Are people aware that a tip credit guarantees each worker the minimum wage at all times?

- If the goal is to make sure each individual is making minimum wage at all times and there is proof that full-service workers are making that and more, why would the city force a change in that industry?

- If the goal is to increase the income of the lowest-paid worker, who are the lowest-paid workers in the full-service restaurant community based on tax information?

- Has St. Paul ever heard of another instance where affected workers are fighting *against* a wage increase?

- Why should we force restaurants to change from a model in which servers are able to collect wages directly from customers in favor of a more traditional hourly pay system in which employers collect all of the money and pay servers as little as possible?

- Has the city surveyed Minneapolis restaurant owners to see how many would consider moving to or opening a second location in St. Paul if there were a tip credit?

- Has the city considered doing a scientific study of full-service restaurant workers aggregate income (W2 income) and hours worked?

- Quick Service Restaurants (QSRs) or counter service/fast food have completely different business models than full-service restaurants. Will St. Paul treat them differently in the minimum wage debate?

- Has the city thought about how increasing minimum wage without considering tip income would exacerbate the already wide earnings gap between the front-of-house (FOH) and back-of-house (BOH) in full service restaurants?

10. YOUTH-TRAINING WAGE, IN SUPPORT OF

Proponents of a youth-training wage—those who would like to see young workers who participate in a training/work program exempt from the minimum wage requirements—aim to avoid creating disincentives for hiring such workers. This includes nonprofit programs that provide paid youth-training experiences that serve disadvantaged teens who are unprepared for the traditional workforce. These nonprofit programs believe youth employment training is essential for teens living in low-income areas or teens of color who may not have access to a variety of local options. Proponents state that these teens are facing double digit-unemployment when statewide unemployment figures are in the low single digits.

Without a youth-training wage, nonprofit programs argue that higher minimum wages could also reduce the incentive for employers to hire less-skilled workers, thus further disadvantaging teens. Cities like Seattle and Chicago that have implemented a higher minimum wage, have generally seen a training wage as beneficial for youth workers. Regulations ensure that businesses are not hiring only youth employees in order to avoid paying the new minimum wage.

On January 25, 2018, the Citizens League attended a listening session with a number of organizations that conduct youth-training programs and/or hire teenagers at their organization.

One organization—a nonprofit—shared that in 2017 alone, the organization employed 225 teenagers, which is their key service population. While the logged hours totaled 30,000, the representative explained that those hours consisted of both "traditional work time" as well as "classroom time" where teenagers were getting paid to learn soft skills such as team building, fiscal literacy, leadership, and time management. For every dollar wage increase, the nonprofit's expenses will increase by $30,000. The nonprofit is concerned it may not be able to increase revenue and fundraising to meet the increased demand. They will have to either reduce the number of teens hired or reduce the quantity and quality of the training programs to remain financially sustainable. Reducing the number of jobs goes against the nonprofit's overall mission to provide jobs for teens in a youth-focused learning environment.

Key Questions

Administrative Burden of Adhering to Different Rules
Some organizations work across the entire metropolitan area. The passage of the Minneapolis minimum wage ordinance created a second set of rules for organizations to understand and with which to comply. Many are already straddling the age and wage differences between federal and state schedules. If St. Paul passes its own minimum wage ordinance, this will likely create a third set of rules. The administrative burden to comply with federal, state and different municipal ordinances is not unique to nonprofit youth employment training programs—it is a concern for all organizations that hire youth in multiple municipalities.

- How will St. Paul ease the administrative burden on nonprofits, organizations and businesses, especially smaller employers, given new and different minimum wage ordinances across the metro?

Availability of Jobs for Teenagers
Proponents of a youth-training wage believe there are limited number of jobs for young people particularly in low-income neighborhoods. They are concerned that without a youth-training wage, there will be few incentives to hire teenagers with limited skills or no employment histories.

- Are there going to be jobs available for young people?

- What is an employer's incentive to hire a 15- or 16-year-old if it can hire a 21- or 22-year-old for the same rate?

- What youth opportunities would go away with an increase to the minimum wage?

City and State Language for Youth-training Wage
Some organizations noted that the Minneapolis minimum wage ordinance creates confusion about eligibility for a youth wage. Employers referred to the Application to be an Approved Training or Apprenticeship Program found on Minneapolis' minimum wage website. This document states that employers must meet criteria for qualifying quality internship/apprenticeship program components. In order to receive a 15% training wage reduction for no more than 90 days, training programs are required to include a host of components.

Programs that receive local/state/federal grants or direct appropriations for youth workforce development will automatically be included in the approved programs. Programs not receiving government sources are then subjected to a comprehensive review. Foundation funders believe they fall into the latter category and are not automatically included in the approved programs.

To be eligible for the approved training or apprenticeship wage in Minneapolis, youth employees must work a minimum of 15 hours a week for 6 weeks if not in school, and a minimum of 10 hours a week when actively enrolled in classes. Using this criteria, a quality program that hires a youth for less than 15 hours a week during the summer or less than 10 hours a week during the winter cannot qualify for the 90-day minimum wage.

Nonprofits that employ disadvantaged teens believe that 90-day limitation is an insufficient amount of time to train youth workers. This reference to standards that are not in the ordinance, and the use of a qualifier that does not allow flexibility to nonprofits challenges the youth, their family life, and the training programs.

- If St. Paul plans to have a youth-training wage, how will it consider different existing eligibility language to minimize confusion?

- If St. Paul plans to have a youth-training wage, how will the city involve foundations—which often are aware of the best practices—to help draft the youth-training wage eligibility language?

- Most nonprofit youth-training programs will need more than 90 days to train a teen. Would St. Paul consider a longer timeline?

Other Financial Burdens
Youth programs and foundation representatives noted a declining trend in charitable resources for youth programming. An example given was the dramatic cuts in United Way funding for out-of-school time programs. The proposed federal budget would cut all out-of-school funding. Additional wage issues on top of already strapped youth programs can have a big impact. In addition to the financial burden of paying youth wages, an increase in the minimum wage would create the expectation and pressure to pay supervisors more.

- How can local government engage charitable funders of youth employment programs in the minimum wage discussion and how will foundations, private and individual funders respond to the impact of a higher minimum wage on youth employment programs?

11. YOUTH-TRAINING WAGE, A CASE AGAINST

Opponents of a youth-training wage are concerned that if a training wage is implemented, this will increase inequality. If young people can get a better paying job in the retail or another sector, those who might uniquely need these youth employment/training opportunities (with coaching and skill development), which could lead to a career ladder, will avoid these opportunities. Those who can afford to take a pay cut will be those that do not need the funds to support their household. These types of training opportunities help young people see themselves in higher positions, so any action that make these training opportunities less attractive is a risk.

Some community leaders who work with young people in foster care, young people in juvenile justice, and young people experiencing homelessness expressed that this population may benefit the most from these youth employment/job training opportunities, but they may not seek these out at a lesser wage or would initially get in but transition to a higher wage position at the first opportunity. Many of these young people are heads of households or significantly contributing to their families. Opponents of a youth-training are concerned that by not first considering these concerns, programs may run the risk of alienating this population from participating in these critical job training programs.

As most youth employment/job training programs are built on metrics that explore completion, if young people start off in these training wage opportunities and realize they can get a position elsewhere for a higher hourly wage, program leaders may need to account for any attrition in order to report back to program funders.

Opponents of a youth-training wage understand that there is likely little or no competition for different workplaces for young people under age 16. For this age group, a lower training wage could make sense. For those age 16 and older, there may be more competing job opportunities, so a stronger case may need to be made about the impact of youth employment/training programs.

Key Questions

- How can a youth-training wage be broken down by age?
- How can youth-training wage criteria better align with work-based learning, tying jobs to graduation?
- How can a training wage be tied to the economy? For example, if the economy doesn't perform, extending a training wage could be possible.

Recommendations for Possible Phase Two

Additional Community Input

1. ADDITIONAL INPUT FROM IMMIGRANT COMMUNITIES, INDIGENOUS POPULATIONS, AND COMMUNITIES OF COLOR

The compressed timeline for this scoping phase did not allow for the needed time to earn trust with certain communities to get their feedback on the minimum wage discussion. Efforts should also be made to collect information in languages other than English. In the time allotted, the Citizens League worked with trusted community organizers and advocates to get feedback from various communities, but more information is needed. The Citizens League also recommends having community representatives on a task force should there be a second phase.

2. ADDITIONAL INPUT FROM INDUSTRIES AND SECTORS

The Citizens League recommends gathering more input from other industry/sectors including but not limited to administrative and support, hotel and other accommodations, retail, waste management, and retail.

Further Research

3. ADDITIONAL AND NEW RESEARCH

The Citizens League recommends reviewing additional existing research as well commissioning new work by retaining a researcher who can provide quantitative research and technical economic modeling data for St. Paul.

Stakeholders for Possible Phase Two Study Committee

4. IDENTIFICATION OF STAKEHOLDERS

A goal of this scoping phase was to identify key stakeholders that would need to be part of a larger effort in 2018 to help answer the questions that have been gathered. We asked participants to help identify individuals that would need to be included so that the effort of phase two and the resulting recommendations would be seen as credible. Most of the participants were willing to serve in this capacity if asked.

Appendix

List of Contributors, Interviewees, and Listening Sessions

- Jeff Bostic, LeadingAge
- Bob Brick, Ally People Solutions
- St. Paul Mayor Melvin Carter
- Chris Conry, TakeAction Minnesota
- Connie DeLage, Grand Avenue Business Association
- Niles Deneen, Deneen Pottery
- Dillon Donnelly, Donnelly Manufacturing
- Thomas Durfee, PhD student, Department of Applied Economics, University of Minnesota
- Eli Jonathan Edleson-Stein, Restaurant Opportunities Centers United meeting, four people attended
- Brian Elliott, SEIU
- David Enyeart, Common Good Books
- Nick Faber, St. Paul Teachers Federation
- Scott Fares, Wet Paint
- Jim Fritz, The Wedding Shoppe
- John Fure, Capitol River Council
- Kerri Gordon and Kristen McHenry, Allina Health
- Matt Halley, Cookie Cart
- Chris Hanson, The Data Bank and Metropolitan Independent Business Alliance
- Bahieh Hartshorn, Community Organizer, West Side Community Organization
- Lyth Hartz, Midwest Special Services
- Kip Hedges, 15 NOW
- Doug Hennes, University of St. Thomas
- Courtney Henry, franchise owner, McDonald’s
- Scott Hietpas, Ecolab
- Steve Hines, Department of Employment and Economic Development (DEED)
- Chase Huffman, Grand Ole Creamery and Grand Pizza
- Kate Kelly, Ally People Solutions
- B. Kyle, St. Paul Area Chamber of Commerce
- Angela Marlow, representing immigrant-owned micro and small businesses
- Midway Chamber of Commerce
    - Chris Ferguson
    - Chad Kulas
    - John Young
- Minnesota Private College Council
- Jeff Otto, Otto Packaging Midwest
- Pro-tip credit listening session (held at Sweeney’s Saloon, 75 people)
- Restaurant Opportunities Center event, 30 people attended
- John Regal, Securian
- Nuria Rivera-Vandermyde, City of Minneapolis
- Jeffrey Schneider, City of Minneapolis
- Celeste Robinson, 15 NOW
- Stephanie and John Rupp, Owners of the Commodore, University Club, and W.A. Frost
- A. Sanchez and Taylor Shevey, Centro de Trabajadores Unidos en Lucha (CTUL)
- Jennifer Schellenberg, President, Restaurant Workers of America and bartender/career server in the Twin Cities

- St. Paul City Council Members
    - Amy Brendmoen
    - Rebecca Noecker
    - Jane Prince
    - Russ Stark
    - Dai Thao

- St. Paul Area Chamber of Commerce
- Eliza M. Swanson, former career server
- Peg Thomas, Sundance Family Foundation
- Kari Thurlow, LeadingAge
- Ujamaa Place, listening session, 10 people attended
- Holly Weinkauf, Red Balloon Bookstore
- Pang Vang, Rainbow Health Care
- Brad Vinton, franchise owner, Toppers Pizza
- PaSee Yang, Minnesota Hmong Chamber of Commerce
- Youth Social Enterprises, listening session, 31 people attended

Online Survey: 102 responses.

List of Articles and Reports

1. **A Substantial Minimum Wage Hike for Minnesota: Benefits, Costs and Economic and Political Consequences**, Ann Markusen, Jennifer Ebert, Martina Cameron, Project on Regional and Industrial Economics, The Humphrey Institute of Public Affairs, University of Minnesota, September 2003

2. **Confronting Exploitation: The Face of Low-Wage Work in the Twin Cities,** Centro de Trabajadores Unidos en la Lucha

3. **Evaluation of a Minimum Wage Increase in Minneapolis and Hennepin/Ramsey County,** Roy Wilkins Center for Human Relations and Social Justice, University of Minnesota, September 2016

4. **Making the Minimum Wage Work: An Examination of the Economic Impact of the Minimum Wage,** Steve P. Calandrillo and Taylor Halperin

5. **Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle,** Ekaterina Jardim Mark C. Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, Hilary Wething, June 2017

6. **Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania**, David Card and Alan Krueger

7. **Seattle's Minimum Wage Experience 2015-16**, Michael Reich, Sylvia Allegretto, and Anna Godoey, June 2017

8. **Staff Report on a Minimum Wage Policy**, City of Minneapolis, May 2017

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END OF REPORT

Contact Information:
Pahoua Yang Hoffman, Executive Director
Citizens League
400 Robert Street North #1820
St. Paul, MN 55101
phoffman@citizensleague.org