



## California's Minimum Wage Increase to \$15/hour

### Political Context

Dear PCOC Members,

As you may be aware, California's labor unions pushed hard for a ballot initiative in November to increase the minimum wage at a faster pace than the bill that was recently signed into law by Governor Brown. To provide context on what this bill means for you as an employer in California and potential off ramp provisions to it being fully enacted we have prepared the following briefing. PCOC will continue to oppose the increase to \$15 per hour but encourages its members to be aware of the increase schedule. We will continue to monitor this issue and should anything change or an off ramp provision be enacted we will notify you as soon as it becomes available.

#### **Overview:**

SB 3 (Fair Wage Act of 2016) increases the minimum wage to \$15/hour. For businesses with more than 26 employees, the minimum wage will increase to \$10.50 in 2017, \$11 in 2018, and then increase one dollar for every year thereafter until it reaches \$15 in 2022. For businesses with less than 25 employees, the increases will start in 2018 (a year later) and continue on the same pace thereafter. This law also provides mechanisms in which yearly wage increases may be **delayed** for up to two times. *The Desert Sun's* editorial board elaborated on these **delays**:

The governor can choose to **"pause"** a scheduled increase for one year under certain conditions – seasonally adjusted statewide job growth is negative for the prior 3 or 6 months and retail sales receipts for the prior 12 months is negative. Another option for a **pause** by the governor can be triggered if any year from the current budget year to two additional years is forecasted to be in deficit when including the next scheduled increase.<sup>1</sup>

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<sup>1</sup> "Brown Gives California Wiggle Room in \$15 Minimum Wage," *Desert Sun*, April 9, 2016, Accessed April 11, 2016. <http://www.desertsun.com/story/opinion/editorials/2016/04/09/our-voice-california-minimum-wage-brown-deal/82803634/>.

Political commentators saw SB 3 as a compromise. The unions wanted an immediate increase to \$15/hour with no potential for delays. The Governor and the Legislature came to an agreement that the unions would withdraw their ballot initiative, if the Legislature passed an increase. The unions compromised by accepting the gradual increase to \$15 with two potential delays.

Public sector unions played a large role in the advocacy for this bill. Only 510 State employees made minimum wage last year.<sup>2</sup> But since the formulas for many union contracts are based on the current minimum wage, it pushes the ceiling for their pay. The California Department of Finance estimates the increase in pay for California public sector employees will result in a total payroll increase of \$235 million by 2022-2023 (the year the \$15 minimum wage increase takes effect).<sup>3</sup> For example, entry-level teachers could see their pay boosted from \$40,000 annually to \$60,000.<sup>4</sup>

Concerns about the bill and its effects on businesses are plentiful. Analysts discussed the geographic cost of living differences across California. While Los Angeles, San Diego, and San Francisco have high costs of living, many parts of California do not. Costs in San Francisco are as much as 74 percent greater than those in Bakersfield. So a \$15 minimum wage, cost-adjusted to the national average, would equate to \$8.15 in Bakersfield and \$14.15 in San Francisco.<sup>5</sup>

The bill was passed by the Assembly on a vote of 48 to 26 and a Senate vote of 26 to 12. Ultimately, signed by Governor Jerry Brown.

## **Bill Details**

*(Source: Government of California and California Department of Finance)<sup>6</sup>*

### **Scheduled Wage Increases (If No Increases Are Paused)**

<b>Wage/hour</b>	<b>26 Employees or More</b>	<b>25 Employees or Less</b>
\$10.50/hour	January 1, 2017	January 1, 2018
\$11/hour	January 1, 2018	January 1, 2019
\$12/hour	January 1, 2019	January 1, 2020
\$13/hour	January 1, 2020	January 1, 2021
\$14/hour	January 1, 2021	January 1, 2022
\$15/hour	January 1, 2022	January 1, 2023

<sup>2</sup> "The Minimum Wage Makes No Sense - Let's Do It Anyway!" *National Review Online*, April 7, 2016, Accessed April 11, 2016. <http://www.nationalreview.com/article/433808/california-minimum-wage-law>.

<sup>3</sup> *National Review Online*

<sup>4</sup> *National Review Online*

<sup>5</sup> *National Review Online*

<sup>6</sup> "Minimum Wage Increase Fact Sheet," *Government of California*, [https://www.gov.ca.gov/docs/Fact\\_Sheet\\_Boosting\\_Californias\\_Minimum\\_Wage.pdf](https://www.gov.ca.gov/docs/Fact_Sheet_Boosting_Californias_Minimum_Wage.pdf).

## **Off-Ramp Provisions**

Governor can choose to pause any scheduled increase for one year if either economy or budget conditions are met. The increase to \$10.50/hour is not subject to off-ramps. Initial determination of Governor by August 1 of each year prior to a January increase. The Governor makes the final determination by September 1.

### **1. Economy**

Governor has the ability to pause an increase if seasonally adjusted statewide job growth for either the prior 3 or 6 months is negative and retail sales receipts for the prior 12 months is negative.

### **2. Budget**

Governor has the ability to pause an increase if any year from the current budget year to two additional years is forecasted to be in deficit when including the next scheduled increase. Pursuant to Proposition 2, a multiyear forecast is adopted as part of the annual Budget Act. A deficit is if the operating reserve is projected to be negative by more than 1 percent of annual revenues, currently about \$1.2 billion. The budget off-ramp can only be used twice.

## **Indexing**

Index annually for inflation (national CPI) beginning the first January 1 after small businesses are at \$15/hour. Floor of 0 percent (no decreases) and a ceiling of 3.5 percent. Off-ramps do not apply once the state gets to \$15/hour.

## **IHSS Sick Days**

Implementation of one sick day in July 2018. Second day added in the first July following \$13/hour implementation for larger businesses, and third day added following \$15/hour implementation.

## **Effect on Workers**

There are approximately 7 million hourly workers in California. Almost 2.2 million workers are currently paid minimum wage.

Annual income of full-time work at minimum wage:

2016 at \$10 per hour: \$20,800

2022 at \$15 per hour: \$31,200

For comparison, the Federal Poverty Level for 2016 is \$24,300 for a family of 4.

For additional information contact PCOC at XXX or NPMA at 800.678.6722 or [publicpolicy@pestworld.org](mailto:publicpolicy@pestworld.org).