Minneapolis
City of Lakes

Staff Report on a Minimum Wage Policy

May 22, 2017

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I. INTRODUCTION: BACKGROUND AND PROCESS

This work is the result of a staff directive from the Minneapolis City Council on August 5, 2016: "[d]irecting the Office of City Coordinator to work with stakeholders, review policies from other cities, review and incorporate results from the minimum wage study, and recommend a minimum wage policy to bring before the City Council Committee of the Whole by the second quarter of 2017."

Much of this work began with an initiative by Mayor Betsy Hodges to offer a "Working Families Agenda" in early 2014. Subsequently, in April 2015, Minneapolis City Council passed a "Strong Economy and Working Families Resolution." This set the stage for policymaker action on a range of workplace policies. After extensive community engagement, the City Council approved the first of these major workplace policies by passing an ordinance on May 27, 2016, requiring sick and safe time for workers in Minneapolis.

Simultaneously, the City Council was also looking at the issue of a municipal minimum wage policy and engaged the Roy Wilkins Center at the University of Minnesota in February 2016 to complete a minimum wage analysis, in response to an RFP process begun in October 2015.

In October 2016, that analysis was completed and Roy Wilkins Center study staff presented their findings to City Council (their main findings are discussed further below in this report). Their report led City Council to approve a community engagement plan, led by a city staff workgroup, to gather input for possible City Council action on a Minneapolis minimum wage policy.

From January through April 2017, the City staff workgroup, including a consultant team (named in the final section of this report) focused on multi-faceted forms of engagement that yielded:

- 16 listening sessions/ approximately 450 people
- 1,759 survey responses as of May 7, 2017
- 115 comments received by email as of May 19, 2017

Staff also met with the Minneapolis Workplace Advisory Committee, a group appointed by the City Council and the Mayor, first convened in March 2017. This group is charged with advising City leaders on workplace-related policies, e.g., implementation of sick and safe time, minimum wage, and related topics.

Finally, as part of their efforts, staff and the consultant team also completed significant research efforts, gathering information about other municipal policies as well as relevant Minneapolis and regional economic data.

II. WHAT WE'VE LEARNED – RESEARCH EFFORTS

Multiple sources have informed this work to date: the City's commissioned study by the Roy Wilkins Center at the University of Minnesota (hereinafter, the "Wilkins Study"); extensive staff research on other municipal and county jurisdictions; data gathering and analysis on Minneapolis' workforce as well as the cost of living in Minneapolis. Each of these data sources is summarized below.

City-Commissioned Analysis/Projections by the Roy Wilkins Center

The Wilkins Study addressed general assumptions about a municipal/local minimum wage policy and ran simulations of a minimum wage at $12/hr and $15/hr. The study concluded that overall, a local policy could raise wages in key industries at least 7% and possibly as high as 37%. The potential for job loss was projected to be minimal. The study identified the greatest risk in the restaurant/hospitality industry with a potential job loss just above 3%.[1] The Wilkins Study concluded:

- There is clear consensus among the literature that a change in the minimum wage results in increased employee earnings. The increase in the hourly wage rate does not, on average, result in a reduction in total hours worked.

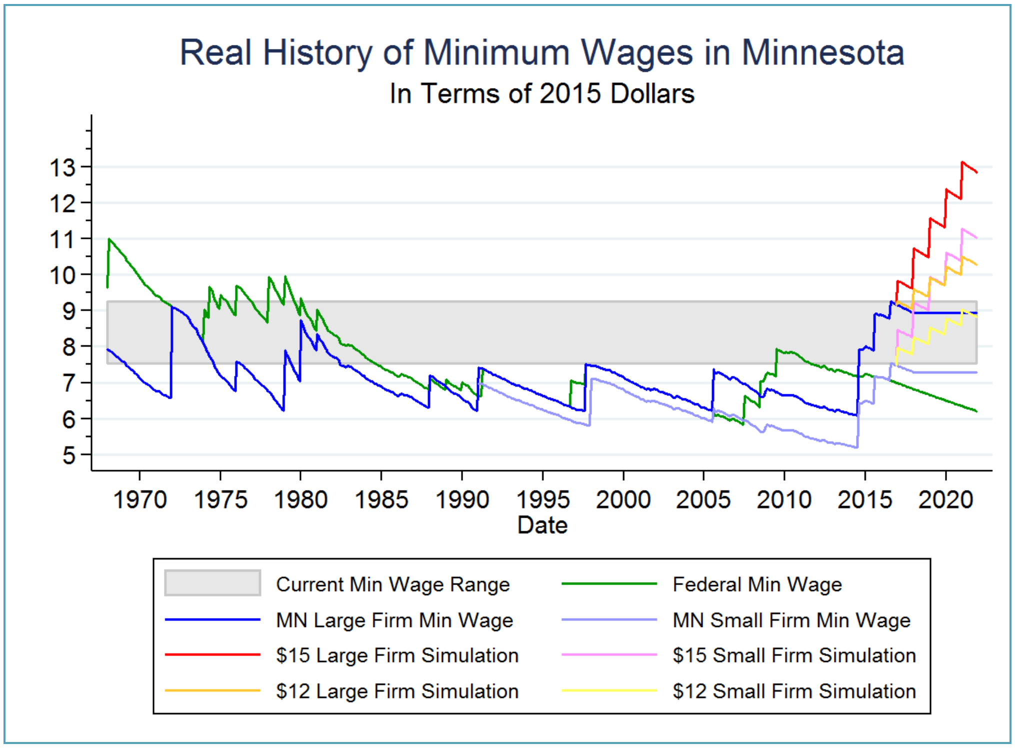
- It is inconclusive whether an increase in the minimum wage would lead to any measurable change in employment; however, the range of estimates suggests that any such change would likely be small. The existing models discuss workforce participation, and it is possible that an increase in the minimum wage changes either the total number of persons employed or the number of persons looking for work within a single industry. What's more, it is possible that changes in employment are realized as changes in turnover or attrition, rather than changes in hiring and firing.

- Out of the three models that were simulated, only one model consistently predicted a measurable reduction in employment for a given business category. This model is also least sensitive to Minneapolis' metro area. Two out of the three models found that, after a change in the minimum wage, the changes in workforce participation were immeasurable.

- The market in Minneapolis' metropolitan area may be more capable of absorbing the changes in labor costs resulting from a minimum wage increase than other parts of the country. One explanation for this is that Minneapolis' relatively high median wage implies that fewer households are reliant on the minimum wage than many regions of the U.S.

- Currently, the statewide minimum wage is $9.50 per hour for large firms, as defined by gross sales over $500,000, and $7.75 per hour for small businesses with gross sales under $500,000. Therefore, a $12 or $15 minimum wage will be a larger change in payroll for these smaller firms. Restaurants and other industries might pass on the increased cost of labor to consumers, but changes in prices are expected to be small — averaging less than 5% at restaurants, an industry where a change in the minimum wage is likely to have the greatest impact on operating costs.

The study also highlights the serious decline in value that has resulted from the federal and state minimum wages not increasing along with inflation. The study authors' note: "[u]pon indexing the changes in the minimum wage to inflation, the simulated $12 citywide minimum wage is comparable to the federal minimum wage paid in the late 1960s."[2] The chart below illustrates the value of the current federal and state minimum wages, as well as the value of hypothetical $12/hr and $15/hr wage levels, per the framework of the Wilkins study.



As an initial exploration, the Wilkins Study provided Council with a strong baseline understanding of the underlying issue. The study highlighted the need for both additional peer research and a better understanding of community and stakeholder opinions, both steps that City Council subsequently took, resulting in this report.

Staff Analysis of Other Jurisdictions

Staff explored how other municipalities/counties have taken action by reviewing their ordinances or statutes, the regional economic context, and the trends of surrounding areas and peer municipalities. Appendix A contains a spreadsheet outlining 51 minimum wage policies specific to cities, counties or states. The peer analysis offers us a broad canvass from which to learn.

- Wage rates in policies range from $8.50/hr (Albuquerque and surrounding county) to $15/hr (20 areas), with Flagstaff, Arizona going up to $15.50/hr.

- One metric used by many economists to assess the potential impact of minimum wage increases on a local economy is the ratio of the top minimum wage to the metro median hourly wage as measured by the U.S. Bureau of Labor Standards. Some economists have suggested that a minimum wage in excess of 50-60% of the local metro median wage is likely to have more negative economic impacts. Appendix A includes this comparison for the 51 jurisdictions reviewed noting the ratios range from under 50% to over 90%, with just over half (27 out of 51) falling under 60%. This approach is discussed in more detail later tin this report.

- The most rapid wage increase happens over a one-year period (Santa Clara, CA, as well as Albuquerque and surrounding county); and the slowest is an eight-year phase-in for tipped employees in Flagstaff, AZ. Most jurisdictions range between 3 and 4 years (11 and 16 jurisdictions respectively) and even longer to 6-8 years in jurisdictions that have provided an extended implementation timetable, most of them offered for small businesses (10 jurisdictions).

- Tipped wages are included in the minimum wage calculation for 24 jurisdictions highlighted in Appendix A. This represents almost half of jurisdictions enacting a minimum wage, though 3 of them phase out after tipped wages reach their maximum minimum wage threshold (Flagstaff, New Yok and Seattle).

- 26 out of 51 (or 51%) of jurisdictions studied provided for a youth and/or a training wage, though 10 of these phase out over time and some jurisdictions have multiple phase out periods based on whether youth is employed by a nonprofit or governmental entity. Details are available in the Appendix, but generally, for those jurisdictions that phase out over a specific time period, the time ranges between 90 days of employment to 6 months of employment.

- Of 51 jurisdictions studied, 38 (75%) treat businesses the same regardless of size; and, among those who create some exceptions, only four of the jurisdictions studied offer full exemptions for smaller or micro businesses. The others accommodated smaller businesses with extended implementation/phase-in periods.

While not binding, understanding how other jurisdictions have approached this work helps us shape the outlines of a potential policy for Minneapolis as the key policy elements addressed in other jurisdictions are the same for the City of Minneapolis.

Minimum wage policy is a popular topic – albeit one in which there is little consensus. Many of the studies collected were pre-policy change predictive analysis estimating increased earnings for low-wage workers and/or job loss or firm exits anticipated as a result of a policy change. Some others offered empirical research analyzing the result of a minimum wage increase in a given jurisdiction. These pre- and post-policy change analyses are insightful, and often show correlation, *e.g.*, a policy changed AND income increased for workers OR firm exits increased in the year following the policy change.

These analyses are illustrative, but often not conclusive nor effective predictors – not because they are flawed, but simply because the economic landscape is complex. It is nearly impossible to ascribe causation solely as a result of this single policy change. Studies from the Congressional Budget Office studying federal minimum wage, and from other sources examining local wage increases in Seattle, San Francisco, Washington DC, and Santa Fe, for example, are clear that wages did increase for the targeted population. However, that increase was sometimes only nominal as it was coupled with decreased hours. In another example from the most recent study by the University of Washington on Seattle's minimum wage, we learned:

> *"…the City's low-wage workers did relatively well after the minimum wage increased, but largely because of the strong regional economy. Seattle's low wage workers would have experienced almost equally positive trends if the minimum wage had not increased. Although the minimum wage clearly increased wages for this group, offsetting effects on low-wage worker hours and employment muted the impact on labor earnings."*[3]

Of significance is that in the decades since impact analysis on minimum wages began, there has been improvement in analytical models and tools. The Center on Wage and Employment Dynamics, part of the Institute for Research on Labor and Employment at UC Berkeley has worked on several analyses that break down the multiple impacts of wage increases (both positive and negative). Their study on the effects of $15 minimum wage in California and Fresno County explains:

> *"A higher minimum wage induces some automation, as well as increased worker productivity and slightly higher prices; these are the negative effects. A minimum wage increase simultaneously reduces employee turnover, which reduces employers' costs, and it increases worker purchasing power, which stimulates consumer demand. These are the positive effects. As it turns out, these negative and positive effects on employment largely offset each other, in both California and in Fresno County."*[4]

Methodologically, they have created an improved analytic model to evaluate proposed increases (*see* Appendix G). Their approach is instructive to us as we try to consider the impacts of a potential Minneapolis policy. They say:

> *"Critics of minimum wage increases often cite factors that will reduce employment, such as automation or reduced sales, as firms raise prices to recoup their increased costs. Advocates often argue that better-paid workers are less likely to quit and will be more productive, and that a minimum wage increase positively affects jobs and economic output as workers can increase their consumer spending. Here we take into account all of these often competing factors to assess the net effects of the policy."*[5]

While improvements in methodologies and analytics modeling are useful for study, individual regional economies operate differently from each other. The infinite variables that impact a local economy do more collectively to impact unemployment, job growth and economic vitality than will any single measure or policy.

Understanding our Minneapolis Economic Landscape

Staff also spent time looking at our local economic landscape. From the Wilkins Study, we know that "the industries with the largest number of persons likely to be affected by the change in minimum wage are food service, retail, non-hospital health, and administrative support." We also know that "minimum wage earners in Minneapolis often have at least some college education; are not currently in school; work at least 35 hours per week; and, are over age 25."

Digging deeper, an analysis of occupation and wage distribution in city jobs shows us that about 8% of those working in Minneapolis (about 40,000 workers) are earning $7.80/hr or less (using 2014 data, the most recent data available from the Census Bureau's *On-The-Map* tool).[6] Per the Wilkins Study, 23% of workers in Minneapolis earn less than $15/hr. And, as the table above illustrates, a solid 25% are earning more than $15, but less than a "living wage", as defined by our MN State Department of Employment and Economic Development (DEED).[7]

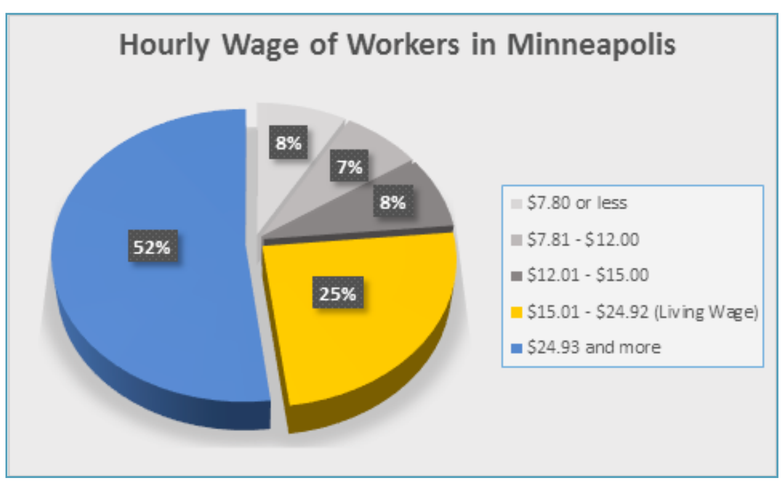
This same wage analysis underlies the Wilkins Study suggestions of most likely industry clusters to be affected by a minimum wage change:

- 53,012 Minneapolis workers are in the healthcare (and social assistance) industry cluster. This represents 17.5% of the total Minneapolis workforce estimated at over 300,000. And, we know that just over 8,400 workers in this segment (about 16% of all workers in this industry cluster) earn less than$7.80/hr.

- Fully 40% of workers in retail and hospitality/food service in Minneapolis are earning $7.80/hr or less. That represents about 13,000 workers alone.

- Although Minneapolis' 14,055 administrative support workers represent just 4.6% of Minneapolis' overall workforce, fully 27% of them (3,756 individuals) are earning $7.80/hr or less.

Just tallying these segments alone yields just over 25,000 Minneapolis workers, about 8% of the working population, earning less-than-poverty-line wages[8] while working in Minneapolis. Further, as noted above, analysis of Minneapolis' wage distribution underscores that of the city's 300,000+



workers, about 47,000 would see wages rise if a $12/hr minimum wage were enacted; and, an additional 24,000 individuals – a total of 71,000 Minneapolis workers – would benefit from a minimum wage enacted at $15/hr.[9]

As other jurisdictions have done, it's useful to factor in a "living wage" into the analysis, noting though, as did the Chicago Minimum Wage Working Group reporting on minimum wage, that "[i]t is important to be clear that none of the minimum wage increases under public consideration – including the $15 increase passed by the Seattle City Council – represent a living wage."[10] In Minnesota, MN DEED has calculated 'living wage' costs for all counties; for Hennepin County, basic livability costs are that individuals (data are for two adults, one child) may spend $12,600 annually on housing; $9,120 on transportation; $8,076 on childcare and other support expenses - all totaling an expected $61,777 as a minimum annual living expense. At full time hours, this would be a wage of $19.80 per hour. A table outlining the complete "living wage" assumptions from the MN Department of Employment and Economic Development (DEED) appears in Appendix B.

Another useful tool in understanding the economic landscape is to mark the median wage (midpoint of all wage-earners) relative to the cost of living. The median wage for the Minneapolis metropolitan region was $20.76/hr (in 2016). Working full-time, our "typical" family from the paragraph above would earn $64,771. This is just about a $3000 difference in annual basic living expenses (as defined by the DEED calculator) of $61,777. We understand then, that only about half of the workers in the region are within striking distance of an affordable cost of living for the region. This is corroborated by national reporting from the National Employment Law Project (NELP). "The results of NELP's report—that nearly half of all U.S. workers are making less than $15—"challenge us to think about the future of this country," says Irene Tung, a senior policy researcher for NELP.[11] Many of the jobs that pay $15 or less are not going away; they're not going to be outsourced, Tung says. "So either we figure out how to raise wages—a cornerstone to rebuilding the middle class—or continue on the path that we're heading down, where those workers are impoverished." The key here is recognizing that if only half the working population appears to be close to a determined point of affordability, it can be reasonably concluded that wages, for many, are insufficient.

To put the worker profiles above in context, it's useful to widen our lens on the Minneapolis economy to understand a bit about where we are growing in the City and relative to the region.

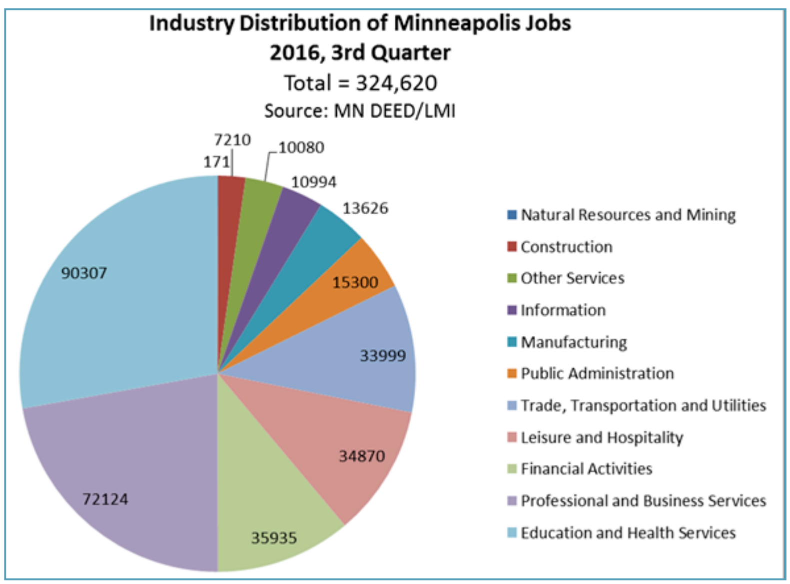
Table 1: **LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**
not seasonally adjusted

	2Q-15	3Q-15	4Q-15	1Q-16	2Q-16
Minneapolis					
Labor Force	232,068	231,758	229,362	233,994	235,826
Employment	223,741	223,641	222,937	226,108	228,133
Unemployment rate	3.6%	3.5%	2.8%	3.4%	3.3%
Metro area					
Labor Force	1,664,591	1,661,645	1,648,188	1,674,196	1,682,678
Employment	1,606,398	1,605,620	1,601,414	1,612,616	1,626,600
Unemployment rate	3.5%	3.4%	2.8%	3.7%	3.3%

Source: Minnesota Department of Employment and Economic Development (DEED) – Labor Market Information

* For metro area definition, see page 12.

As the chart above indicates, Minneapolis enjoys a low unemployment rate, and most recently, an increase in labor force participation following a dip at the end of 2015. Within Minneapolis, most people who are employed work in the Education and health services sector followed by professional & business services, financial activities, leisure and hospitality, and trade/transportation/utility functions.



Together, these six industry clusters alone account for more than 70% of Minneapolis jobs.[12] Two of those clusters cross over with the worker analysis above where low-wage jobs are targeted by a potential minimum wage policy. Within our metro region, some occupations and sub-sectors within the top six also show up in analysis of our regional "star" industries (see Appendix B). These industries have strong regional business presence and a growth trajectory. The health care and social assistance sector, for example, expects employment growth of more than 10%, -- and, this is one in which we have a number of pockets of low-wage work.

Thinking about regional impact, it is important to note that Minneapolis has one of the lowest shares of jobs within the city itself relative to the region, compared with other regions that have enacted minimum wage policies. An interactive look at the data is available on the City's tableau platform.[13] Having a small share of regional employment is useful context simply for understanding that there are many regional factors that influence Minneapolis' economy; and, that a policy regulating wages in Minneapolis may not have a widespread regional ripple effect, in practical terms.

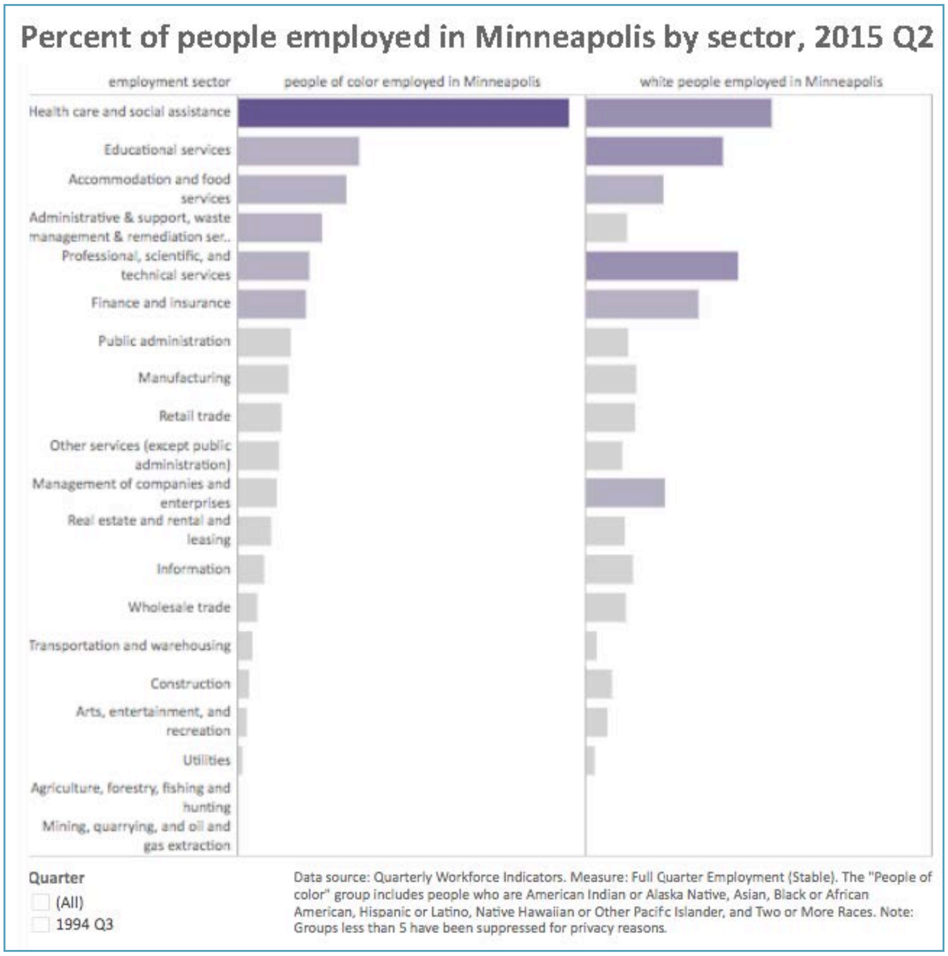
While the business environment is strong in terms of growth and employment, we also note that "total compensation costs for private industry workers increased 2.9% in the Minneapolis-St. Paul MSA for the year ended in March 2017…[and] Minneapolis experienced a gain of 1.9% in total compensation costs. Locally, wages and salaries, the largest component of total compensation costs, rose 2.9% over the 12-month period ended March 2017. Nationwide, total compensation costs and wages and salaries rose 2.3% and 2.6% respectively, over the same period.[14] Even as we are concerned with low wages for some workers, the *cost of compensation* is rising for Minneapolis businesses faster than the nation. This is a concern for businesses trying to effectively manage labor costs. As you'll see later in this report, we heard numerous testimonials from business leaders that an *additional* labor cost regulation would be a challenging burden.

Finally, it is important to recognize what we heard so often from our business community as part of our listening sessions: within the past two years, Minneapolis businesses have experienced significant regulation changes due to actions by Minneapolis policymakers. Requirements to provide sick and safe time to workers and restrictions on the use of plastic bags in retail establishments have been singled out by many as particularly impactful policies that have required much time, attention, and increased costs from many Minneapolis businesses. And while we also heard directly from business voices recognition of the many efforts the City has put in place to provide supports to businesses (particularly smaller businesses), the pace of change, and business impact is significant and, for some, overwhelming.

Addressing Racial Equity

Every four years, the City of Minneapolis adopts goals that guide the City's work moving forward. One of these goals is *One Minneapolis: Disparities are eliminated so all Minneapolis residents can participate and prosper*. In 2014, City Council went one step further and clearly defined the City's work on racial equity as "the development of policies, practices and strategic investments to reverse racial disparity trends, eliminate institutional racism, and ensure that outcomes and opportunities for all people are no longer predictable by race." Given this critical lens, the workgroup could not complete this analysis without an overlay of race and ethnicity in our analysis of the Minneapolis workforce landscape.

The Wilkins Study highlighted that "nonwhite employees are more likely to be affected by an increase in the minimum wage than white workers, when controlling for the number of workers in each group".



- Health care & professional services sectors employ the greatest number of employees; and, African-Americans in Minneapolis are more likely to work in the healthcare segment than in any other industry cluster.

- Hispanic/Latino employees are concentrated in Accommodation & Food Services, Admin & Waste Services – two of the top industry segments we've identified as having low wages.

- Foreign-born immigrant workers, who represent about 13% of the total workforce in our region, are disproportionately represented in these same occupational categories.[15]

Looking at the table above, as we understand the demographics and characteristics of the more than 25,000 Minneapolis workers earning less than $7.80/hr, the additional 22,000 earning less than $12/hr, and the additional 24,000 workers earning less than $15/hr, we see that these individuals are disproportionately of color, and those whom City of Minneapolis leadership has expressly identified as the target of many of the City's efforts to address racial equity. We also know from the Wilkins Study that many are likely to be adults raising children. The confluence of wage distribution, industry cluster, and race is clear – addressing low-wage earners in key industries will have significant impact on economic and racial disparities.

Considering Health Impact/Equity[16]

There have been numerous studies that have linked economic status or disparity to health. In 2016, a study published in the American Journal of Public Health looked at premature mortality rates of New York City residents after the City had raised its minimum wage to $15. Acknowledging the "growing body of work by health departments to resurrect the centrality of minimum wages to population health," the report found that "results are consistent with the pervasive robust links found between premature mortality and low life expectancy and poverty and low income found in numerous other studies."[17] Similarly, a study published in the March 2017 edition of the American Journal of Public Health concluded that raising the minimum wage by just a single dollar could reduce adolescent birth rates among 15-19 years olds by 2% - possibly about 5,000 fewer births to teen parents across the United States.

The Minneapolis Department of Health provided the workgroup with a policy statement on Income and Health from December 2016. We highlight relevant portions of this brief below, which concurs with a white paper issued by the Minnesota Department of Health in March of 2014 in concluding that "[n]umerous studies document a strong relationship between income and health. Consistent with national and international studies, Minnesota data also indicate that income is closely related to health."

From the Minneapolis Department of Health brief

Despite a common belief that an individual's behavioral choices are the strongest predictor of health status, research has consistently shown that this is not the case. The strongest predictors of health status are the factors that are known as social determinants of health. These factors include educational and employment opportunities, housing, transportation options, neighborhood safety, and access to recreation areas and food options that support a healthy lifestyle.

In the U.S. as elsewhere, income levels for workers are affected by economic policies, such as mandating a minimum wage. Studies conducted in the U.S. consistently show that income is one of the strongest predictors of health status: the lower the income level, the higher the risk for poorer health. For example, adults with annual incomes less than $35,000 are more than four times as likely to report poor or fair health as those with incomes over $100,000. Rates of heart disease, certain cancers, diabetes, ulcers, kidney disease, liver disease, and arthritis are all elevated among adults with lower incomes. Hypertension, typically associated primarily with older males, has also been found to be more prevalent among younger workers and women in low-wage jobs.
Socioeconomic status influences health through several mechanisms, including:

- **The impact of chronic stress** - Stress associated with financial adversity is known to have harmful biological effects on the body — the "wear and tear" that results from long-term or repetitious attempts by the body to adapt and achieve stability in the face of chronic stress. A heightened stress reaction to financial and accompanying stress factors becomes the body's normal state with resulting health implications, including accelerated disease processes and increased vulnerabilities to new disease encounters.

- **Place-based benefits -** Place-based benefits are the conditions and assets that derive from living in an environment that can positively influence health. The local economy determines access to jobs, commerce, schools, and other resources. Low-income neighborhoods and areas of concentrated poverty tend to expose residents to higher rates of unemployment, crime, youth delinquency, social and physical disorder, and greater overall in- and out-flow of residents. These exposures can have a profound impact on health despite an individual's health habits and choices.

- **Affording healthy lifestyles -** People with higher incomes can more easily afford the necessary supports to a healthy lifestyle. Regular and nutritious meals tend to be more expensive and less convenient than less-nutritious options and fast food. More time off with family and friends and times and places to enjoy outdoor activities may be out of reach for some individuals living in poverty.

- **Health over the life course -** Increasingly, the medical community is citing childhood poverty and early childhood adversity as urgent public health priorities due to their profound impact on health over the life course. Socioeconomic conditions experienced by children continue to affect their health status throughout adulthood.

Poverty is concentrated among people of color, children, people with lower educational attainment, and female-headed households. Policies that affect household income — especially among the lowest earners — could have a substantial benefit for city residents. Higher wages for some families may mean parents can work fewer jobs or hours. The benefits to children would accrue through more parenting time, including time for involvement in children's education and family recreation. Better economic conditions for Minneapolis families mean longer and healthier lives, and ultimately more stable communities.

In summary, all these research efforts lead us to conclude that nearly half of the City's 300,000+ workers are likely earning far less than a "living wage." We have at least 71,000 workers (or about one-quarter of Minneapolis workers) in Minneapolis – many of whom are Minneapolis residents[18] – for whom affordability of basic needs is a problem. This is one of the issues the City is actively trying to address.

III. WHAT WE HEARD

A. PRIMARY THEMES

Between January and March, 16 listening sessions were held with over 450 people attending and providing feedback. We also received over 115 email comments and over 1,750 individuals answered our survey. We heard from people on all sides of the issue a general desire, or understanding of the need to ensure that all Minneapolis residents have a quality of life that allows them to care for their families, be healthy, live in safe housing, and pursue personal growth. There was great departure however around how this should be accomplished and the role the City should play.

Many individuals felt that raising the minimum wage was one pathway towards achieving an overall better quality of life for residents. They also noted that issues like access to affordable housing and childcare were additional barriers that would not necessarily be helped by increasing the minimum wage.

"We have a moral opportunity to positively impact poverty. Minneapolis can be one of the first cities to make a statement about the importance of paying a fair wage."

"I'm approaching the topic from a community perspective and want to reiterate the housing need. Increase wages are a need and we need to look at the intersections of poverty and not as wages as the end all be all. If you have an affordable housing shortage, more wages won't matter for that. I would like to see the City redirect funds to help build more affordable housing in the city."

"I work with low income workers (elderly, single mothers, etc.) they aren't able to make ends meet. Poverty impacts social life, public life, etc. Have very unfavorable conditions in community. The person who gets everything will never understand the pain of poverty. People who live well below the poverty level need to have a decent income. This issue needs a human face. If the minimum wage is not increased, there will be people who can't afford to live in MN or in U.S."

On the other hand, we heard from many that City Council was overreaching in imposing more restrictions on how businesses operate within the city and that some workers would be negatively impacted by a raise in the minimum wage therefore negatively impacting their quality of life.

"I don't think the City is ready to pay me half a million dollars to compensate me for the business income I would lose. We are a capitalist society and the city needs to stay out of what we pay our employees. Do I need to reconsider offering employee benefits, do I need to move to St. Paul, or raise my prices? This would be a terrible mistake. This is outside of the City's jurisdiction."

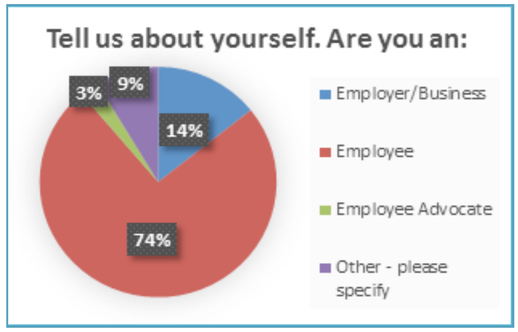
Though a minority sentiment, we also heard comments that addressing the minimum wage by itself leaves out a segment of the population that finds themselves without jobs to begin with and additional attention needs to be paid to addressing homelessness generally.

There was overwhelming agreement that a statewide or regional policy would be a better approach. However, we also heard a great deal from people who said barring the state or federal government acting on the issue of minimum wage, the City of Minneapolis could exercise its leadership within the State by being the first to adopt a new policy, and that where other major cities have done so, the impact on neighboring cities, counties and states has been evident. The annotated bibliography identifies several resources describing how states adopted statewide policies following local (or regional) action.

We heard from both workers and businesses that there was a desire for Minneapolis to have thriving businesses and the opportunity for workers to find work. Many workers and businesses felt a mandated minimum wage would drive businesses and workers to other cities leading to a declining business environment. We heard in particular from many in the restaurant industry that an increase without an exemption for tipped employees would have a negative impact resulting in a loss of tip income or employment.

At the request of the working group who encouraged businesses to share details about their payroll, some businesses did submit data to help illuminate the impact a minimum wage policy would have on their business operations. We include that data in our discussion of survey results below.

B. SURVEY RESULTS



As noted previously, the workgroup distributed a survey (available in multiple languages) directed at both employers and workers alike. As of May 7, 2017, 1,759 responses have been collected.

Employer/Business Profile

- Food service, hospitality, and retail were the top responding industries and represent 63% of the employer respondents.
- 73% have 49 employees or less. 38% have between 10 – 49 employees and 35% have 9 employees or less.
- 55% employ workers that earn tips or commissions and 55% of their tipped or commissioned employees work part-time.

Employee Profile

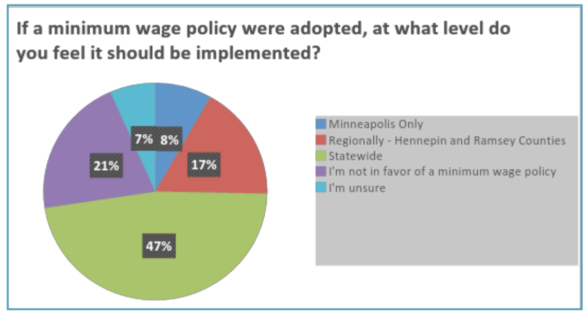
- Employees working in food service (25%), non-profits (12%), government (11%), and hospitality (10%) made up the largest group of employee respondents. An additional 14% of respondents selected “other” for the industry of which 36% are employed in education.
- 70% do not receive tips or commission as part of their pay.
- 79% work full-time.
- 67% earn more than $30,000 annually and 57% said their hourly wage is more than $15.00.

Minimum Wage Policy Questions

- In general, responses to survey questions mirror what we are heard in the community listening sessions.

- 63% are either strongly in favor or somewhat in favor of an increase in the current minimum wage.

- When asked to consider what level respondents would like to see a policy implemented, 47% favored a statewide approach, followed by regional implementation, with only 8% being in favor of a Minneapolis only policy. 21% of respondents stated they are not in favor of a minimum wage policy. Respondents were not asked for their feedback on a Minneapolis only policy in the absence of a statewide approach.



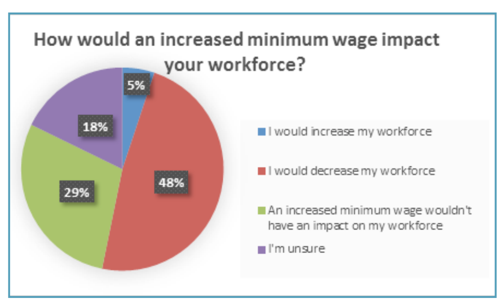
- 608 respondents provided numerical recommendations related to the wage level for large employers, defined as those whose revenue is $500K or more: 88% said they would like to see the wage set at or above $12.00 per hour. 75% said they would like to see the minimum wage set at $15.00 or more per hour.

- 564 respondents provided numerical recommendations related to the wage level for small employers, defined as businesses whose revenue is $499K[19] or less: 76% said they would like to see the wage set at or above $12.00 per hour. 52% felt the wage should be set at $15.00 per hour or more.

- 43% of survey respondents felt a minimum age policy should be phased in. 409 respondents provided comments related to the phasing period with 282 individuals providing specific recommendations related to the length of phasing: 73% feel the policy should be phased in over 2 or more years.

- While 50% of respondents felt that a policy shouldn't include exemptions based on business type or industry, there was some feedback that small businesses and nonprofits should be considered for exemption.

- Feedback regarding whether or not tipped employees should be included in a policy was fairly equally mixed, which is similar to what was heard in community listening sessions.



- Of the individuals responding to the online survey question, "How would an increased minimum wage impact your workforce?," 48%[20] said they would have to decrease their workforce.

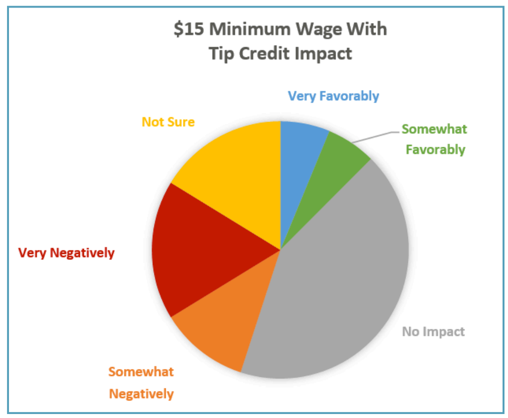
In addition to the survey the workgroup distributed, the Southwest Business Association and Lake Street Council distributed surveys to their members. These survey results are also included in Appendix D.

246 businesses responded to the Southwest Business Association survey. The majority of respondents were restaurant and retail establishments primarily located in Southwest Minneapolis. The results of their survey mirrored what we have heard in our stakeholder engagement efforts.

- 61% of respondents reported increasing the minimum wage to $15 per hour would have a very negative impact on their business. The impacts include: job cuts, reduced hours, staffing structure changes, increased prices, increase competition with suburban cities, increased disparity between large and small businesses, and wage disparity and compression.

- 82% of respondents reported that $15 per hour minimum wage increase would negatively impact their business.

- When asked how a minimum wage policy would impact their business if a tip credit were included in the policy, a majority of question respondents stated a policy would have either a favorable impact or no impact on their business.



The Lake Street Council submitted survey responses from 13 businesses. 92% stated that an increased minimum wage would cause them to decrease their workforce. 69% of respondents stated that if there was a policy change they would prefer that it be phased in.

In addition to collecting survey responses, the Lake Street Council also hosted two forums where 55 business owners and managers attend provided their thoughts on municipal minimum wage policy. A general summary of the feedback they heard included:

- Businesses that are deciding to expand to a new location are considering locations outside of Minneapolis due to the high cost of doing business in the city.

- To manage a higher municipal minimum wage, business owners would need to either cut costs or raise prices to absorb higher labor costs. They are worried that competition from businesses in nearby cities and/or online retailers make it impossible for them to raise prices significantly, and if they do raise costs, they question whether they can continue to maintain the same level of sales.

- If businesses choose to cut costs, they may do it one of these ways:

    - Reducing hours and hiring fewer employees
    - Providing fewer benefits, such as PTO or employer-provided healthcare plans
    - Using products that are lower quality or less mission-aligned (ie. processed non-local ingredients in restaurants)

- Restaurant owners are very concerned about the equity impacts of raising the minimum wage for all employees when tipped workers already earn more than other staff at their restaurants. Some businesses already compensate for the difference in tipped wages by raising the wage of non-tipped employees, but they could not afford to continue to do that if the minimum wage is increased.

- Many businesses currently hire part-time employees, often seasonally, to provide opportunities for younger and inexperienced candidates to earn job experience. If the minimum wage for those employees is increased significantly, many of those businesses may not continue to offer those opportunities.

Finally, the Minnesota Restaurant Association received data from 83 locations in the city with a very wide range of styles, locations and menu prices. The respondents ranged from neighborhood family cafes without alcohol to fine dining restaurants. From all of the respondents with locations in Minneapolis, the number of employees covered (in an October 2016 snapshot) was 3,743. Those employees collectively worked 342,381 hours in October 2016. During that month, average hourly earnings including wages and reported tips were as follows:

Cooks	$13.67
Support	$12.55
Tipped	$28.51

All of these surveys represent a critical step in our community engagement – allowing for detailed understanding of how people felt about possible positions, and creating opportunity for data to be shared with the staff team as policy considerations were formulated.

IV. FINDINGS, CONSIDERATIONS, AND RECOMMENDATIONS

There was an overwhelming sentiment at the listening sessions – even among many who disagree with a city-mandated minimum wage – that Minneapolis is a city striving for fairness and balance and that everyone has an interest in Minneapolis remaining a thriving and vibrant city for all. There was also widespread agreement that workers should earn enough to meet basic needs for housing, food, transportation and healthcare; and that business owners should be supported and recognized for the risk they assume as entrepreneurs.

In thinking about how we find this sense of fairness and balance, there was some agreement that issues of wages and livability in Minneapolis are "*communal issues, requiring a communal response*" – a comment expressed by one of our Workplace Advisory Committee members. Several business voices suggested that they are certainly willing to consider wage increases, but that affordability of housing, healthcare, transportation, and other elements in Minneapolis are not – and should not be - the sole responsibility of business owners.

As staff balanced comments received during the public engagement process and the research at hand, it became evident that a municipal minimum wage policy is one available tool to address issues of livability and economic disparity in our community. While cognizant that a statewide or regional approach would be preferred, it is unlikely in the near term. Given the City's policy commitment to reduce disparities in our community, staff sees that consideration of a municipal minimum wage is certainly a mechanism by which City Council could act toward reducing economic and racial disparities, though it is but one of many tools by which policymakers can continue to address said inequities. Further attention to issues such as affordable housing, affordable and accessible transportation, education, training, and access to jobs generally should continue to be a focus the City maintains.

In considering a minimum wage policy for the City of Minneapolis, City Council will need to make decisions on at least five key policy elements:

1) Jurisdictional reach: who are the intended beneficiaries of Council's action? All Minneapolis workers? Workers whose primary place of business is within Minneapolis? Minneapolis residents working in Minneapolis?
2) Wage level: what is the maximum wage level we seek for Minneapolis workers over time?
3) Phase-In Period: how quickly should the desired maximum be reached?
4) What, if any, consideration should be given to types of industries or types of workers?
    a. Special considerations for tipped workers in hospitality and food service
    b. Youth workers
    c. Special consideration for small businesses across all industries

Each of these decision points is discussed in greater detail below, in the context of what was heard and learned through the staff engagement process, with choices offered and a staff recommendation made from among the choices offered.

1) Jurisdictional Reach: Who are the intended beneficiaries?

Context: During consideration of the sick and safe time ordinance, there was a widespread understanding that the focal point of an intended policy was on individuals working in Minneapolis (regardless of residence). Further definition was needed regarding the place of work and/or the primary 'headquarters' office of an organization. The public health argument for focusing on *all* workers in sick and safe time is quite compelling – and, as noted above, there are health implications in considering a minimum wage policy that affects all workers working in a given geography.

Policy Choices:

A Minneapolis policy would apply to:

a) Workers in Minneapolis, based on hours worked in Minneapolis, regardless of business location
b) Workers in Minneapolis, employed by businesses within Minneapolis city limits

In its most recent sick and safe time policy, the City recently discussed variations of employee and employer to be included in the scope of the new policy and could certainly use those to match a municipal minimum wage policy. However, we note that in our review of peer cities, jurisdictional definitions varied between sick time policies and minimum wage policies, in large part because sick time is an accrued benefit to employees obtained after a minimum of time working for an employer while minimum wage is intended to represent a fair wage for workers regardless of length of time spent with a single employer. Unlike an accrued benefit, minimum wage is about compensating individuals for their immediate work.

As such, we saw that most jurisdictions went one of 2 ways: either being silent on the hours worked indicating individuals should get paid by the hour per hour regardless of how much time they're working (20 out of 51 jurisdictions) or applying minimum wage policies to all individuals who work at least 2 hours in a given week (27 out of 51 jurisdictions). A few expanded the definition to be looked at over a two-week period or a set amount of work in a calendar year. Current Minnesota practice is to apply the state minimum wage to *any* hours worked – with no qualifying threshold.

This leads us to a definition of "employer." As seen in our recent safe and sick time ordinance, we defined employer to include anyone who has workers who work within Minneapolis city limits. While that definition is pending legal review, we note that the majority of policies in jurisdictions we reviewed - many of which have been in place for multiple years - included a definition of employer as anyone who employs another person within the City limits, regardless of where that employer is located. One jurisdiction in particular - Oregon State – provided guidance in their statute regarding calculation of region by defining rates based on percentage of time an employee works in a given location. Where an employee performs > 50% of work in a pay period at the employer's permanent fixed business location in Oregon, the pay rate is based on that location. In the case of employees who make deliveries as a part of their job and who start and end their workday at the employer's permanent fixed business location, their pay rate is based at the fixed business location. For employees who do not perform more than 50% of their work in a pay period at the employer's permanent fixed business location in Oregon, they must be paid at least the minimum wage rate for the region in which the employee performs said work.

Staff Recommendation: To be consistent with current state law, staff recommends this policy apply to anyone who works in Minneapolis for any amount of time. Pending review from the City Attorney's Office, we also recommend the policy apply regardless of business location or that Council consider some kind of clarifying language as was done in the Oregon example.

We note too that exemptions on who is an employer varied with many jurisdictions exempting a range of employers such as religious organizations, taxicab drivers, bona fide executive/administrative/professional personnel, independent contractors, state or federal employers, casual babysitters and other such specific exemptions. While the workgroup felt administrative simplicity was best served by a broader definition (meaning fewer exemptions as the City opted to do for its sick and safe leave policy), we note that City Council could also choose to follow the state's definitions of "employer" and create certain exclusions based on already existing state statute. This would include many of the above-mentioned exemptions.

2) Potential minimum wage level

***Context*:** The low end of the wage scale is the current state minimum wage at \$7.75/hr (this is for small businesses; \$9.50/hr applies to large businesses), the median wage for the region is \$20.76/hr, and the milestone for "livability" is at \$19.80/hr.[21] Again, we underscore that a minimum wage, as we have seen from other cities' experience, is, by definition, below the median and typically below a jurisdiction's living wage at the start. The Wilkins Study did its analysis at \$12 and \$15 thresholds at the direction of City Council.

In our listening sessions we asked about wage levels. For those able to look beyond the question of whether the City of Minneapolis should act on its own in increasing the minimum wage, \$15/hr seemed to be the common reference number. We believe this is due to several factors including the advocacy around this issue with \$15 NOW and similar allies making a strong and visible case for this wage threshold; as well as advocates for Pathway to \$15 – a Minneapolis proposal focused primarily on the restaurant industry advocating for the inclusion of tips as part of the minimum wage calculation. Both the \$15 Now and the Pathway to \$15 proposals make a case for getting to a \$15/hr wage over a period of years. In reviewing the literature, \$15/hr was a visible reference in many city considerations as well with several cities (21 out of the 51 surveyed) working towards \$15/hr in their own policies. That said, not all cities have used the same threshold with at least 11 cities ranging between \$12 - <\$15 and 12 cities opting to enact a minimum wage between \$10 - <\$12, including our closest Midwest neighbor Chicago (and subsequently Cook County) that chose \$13 as their minimum wage target.

Research shows there is not a magic wage number to offer our City Council. When it comes to identifying an absolute wage level, obviously policymakers may reasonably pick any number above the higher current state minimum wage threshold of \$9.50 to assist low-wage workers in Minneapolis. Based on our research, we offer three methodologies for arriving at a particular wage level.

Many voices spoke about a wage level as a means to an end – with affordability being the ultimate driver and perhaps tied/adjusted more to cost of living. This is an important consideration as the absolute wage level is, in many ways, less meaningful than articulating a wage level that gets us to the "fair and balanced" approach that many suggested. Some approaches include:

a) **Consider a "cost-of-living-relative-to-peer-city" index:** Looking at our peer research, we have a core group of cities who have all gone down a similar path, aiming at $15/hr, as explained above. However, the absolute dollar amount doesn't buy the same from city to city. Staff has constructed a tool that offers that calculation for each of the 11 "peer regions, as identified in the GreaterMSP Regional Dashboard.[22] The tool allows us to set a 'benchmark' city -- and ask "what is the equivalent wage (in buying power) in each of these peer cities, if the wage is $X in a given city?" For example, a $15/hr wage in San Francisco translates to $9.07 in buying power in Minneapolis; likewise, a $15/hour wage in Seattle is equivalent to $11.20 in Minneapolis. Conversely, a $15/hour wage in Minneapolis is equivalent to $24.82 in San Francisco and $20.09 in Seattle. This approach acknowledges policymakers' support for a broad-based effort to raise wages, while modifying our specific policy to be relative to peer cities. Over time, the "target wage" could also be changed, and then calculated relative to the peer city group.

b) **Tied to our regional or state median wage:** Among economists and others crafting minimum wage policies, there is increasing interest in tying a minimum wage to a median wage as a solid approach to ensuring that the earners at the low end of the wage scale are never too far from the middle (and hence, the top). According to an analysis published by the New York Times in August, 2015:

> *"[t]he higher that ratio, the greater risk of job losses, too. Where is the point at which job loss risk exceeds the benefit to workers? There is some evidence that cities and states have managed to absorb increases when the minimum wage is in the neighborhood of 50 percent of the median, even a bit higher. But economists have very few historical examples of increases that go beyond 60 percent. And even some economists who are at ease with moderate increases in the minimum wage worry that a minimum wage in that 60 percent[23] range or higher could produce significant job losses."*

It appears that targeting a minimum wage to about 55% of a median wage is possibly the "optimal" threshold at which workers gain most without risking greater loss of jobs (and presumably reductions in work hours). This approach may yield a lower absolute wage level, but speaks more to overall balance and fairness within a regional (or municipal) economy. This is illustrated with suggested numeric levels below.

c) **Tied to our living wage:** Per the calculator provided by DEED, the actual "living wage" for a "typical" 3-person sized household in Hennepin County is $19.80. With this as the target, policy-makers could certainly offer up this as the wage level to achieve, though it is an unlikely number given our emphasis on "fairness and balance" as doubling the current state minimum wage would be too great a burden to ask businesses to bear. City Council might choose to emphasize a partnership approach in getting Minneapolis workers to a living wage where Minneapolis businesses assume a percentage of that total burden and the City, in partnership, will take other measures aimed at affordability to close that gap.

In this last approach, we highlight the notion articulated by participants in our listening session (and on the City's own Workplace Advisory Committee) that a *communal problem requires a communal* response. It could be meaningful to suggest that the business community is responsible for its share (however that is defined) by committing to some wage level that, along with other City efforts reasonably working towards making housing, transportation, and other costs more affordable for all Minneapolis residents, effectively addressing the share needed to get to an accepted level of affordability for the City of Minneapolis.[24] In reviewing choices (below), we note that Council could select this approach AND choose a different percentage split to identify a public/private partnership in helping raise workers' raises and meet affordability thresholds in Minneapolis.

Policy Choices:

a) Building on the peer city index mentioned above the *average* of those peer cities is \$12.49/hr and the median is \$11.53. The average is comparable to our closest Midwestern peer – Chicago – which set their minimum wage target at \$13/hr.

b) Using the median approach, and factoring in an extended phase-in period (next section), we might consider the median metropolitan wage (expected) in 2021[25] and calculate 55% of that median. That equation takes the current median wage of \$20.76 and calculates it out with an inflation escalator to yield an expected median wage of \$23.37 in 2021. Taking 55% of that estimated 2021 number results in a current wage level of \$12.85/hr.

c) The "living wage" for a "typical" size household is \$19.80. We recognize that "fairness and balance" would dictate that Council not step forward and essentially double the current (higher) state minimum wage. Asking businesses to absorb such an increase would cause significant economic upheaval. Rather, we might instead create an option to set a minimum wage as a percent of the living wage. In this approach, for example, 75% of the current living wage is \$14.85/hr. This approach could be easily shifted to be a 70/30 or 80/20 split, yielding different numbers. At its core, it is an opportunity to affirm the importance of affordability as calculated in the living wage while also recognizing that this need not be the sole responsibility of businesses as employers to resolve.

Staff recommendation: We recommend policymakers implement a universal or absolute wage level to be indexed to inflation after we've reached the initial target wage, with a range between our peer region index approach (\$12.49) to a maximum of the current national trend (\$15) – noting for any wage level selected we also recommend a multi-year phased-in approach (discussed below) to allow for businesses of all sizes to accommodate and adjust to these new minimum wage increases.

3) Phase-In: how quickly should the desired maximum be reached?

Context: In enacting a policy change like this, clearly, there must be a phase-in period to allow for a reasonable increase on businesses and not put too much of a strain on the local economy. In most of our peer research, it seems the phase-in period was determined through a combination of what is understood to be reasonable (for businesses) and meaningful (for workers).

In considering how quickly to phase in or escalate minimum wage increases over time, we must first acknowledge that if a goal was to get to $12/hr (or $15 or $20) by 2020, for example, that same $12 (or $15 or $20) will not buy the same basket of goods for the same amount in the future as you expect it to now. Its value will have decreased by the time we reach full escalation. As the purchasing power of a wage increase decreases with each additional year added to a phase-in period, the compelling argument is for as brief a time as is reasonable.

A second critical element is one of balance – a theme that is woven throughout this report – where one establishes enough time, patience, and learning as possible for business owners to comply and ensure successful adjustment while trying to address the economic realities and needs of workers who are most impacted by the current wage structure.

In our peer city research, 26 other jurisdictions phased in their policies between 3 and 4 years, but an additional 10 jurisdictions extended their implementation timelines to between 6-8 years to accommodate specific groups or industries (tipped vs. non-tipped, small businesses vs. large, nonprofits and youth workers). Of the 15 jurisdictions that phased in their policies with an eye towards establishing a universal or absolute wage level, only 3 of them (New York, Seattle and Oregon) allowed for a 3-tiered approach whereby business size, geographic location or whether tips were included initially in the calculation dictated when a particular wage would be enacted. Seven other jurisdictions (all in California including the state) included a 2-tiered phase in to account for longer implementation times for smaller businesses. Another 6 allowed for a similar 2-tiered phase in with longer implementation times for non-tipped employees, youth or nonprofits. In our survey, 73% of respondents preferred a phase-in period of at least two or more years.

Policy Choices:

a) Raise to the maximum rate for all businesses all at once at a schedule that reflects the majority of what other jurisdictions have done, typically between 3-5 years.

b) Raise to a maximum rate varied by industry/occupation/business size. We discuss this a little more fully in the next section, noting that smaller businesses may benefit from more time to reach full compliance.

Staff recommendation: We recommend a tiered phase in period that starts no less than 4 years phase-in period and a longer period for small businesses (see next section)**.**

4) What, if any, special consideration should be given for types of industries or types of workers?

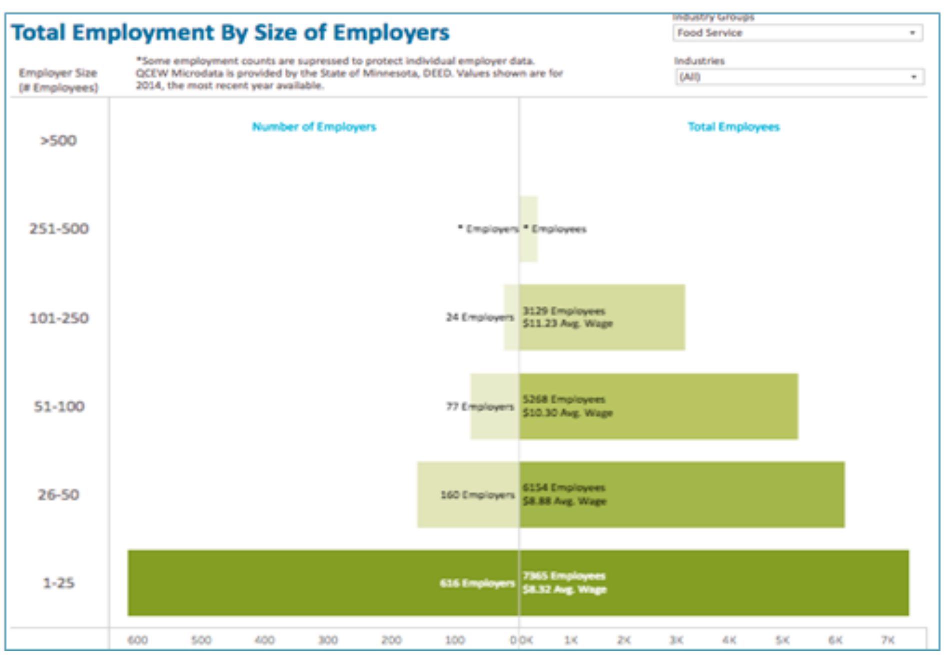
Context: On first glance it would appear that a one-size fits all approach would impact everyone equally and could be considered by some a reasonable approach. While we recommend thinking of a policy that applies to the broadest possible contingent, we believe distinctions in implementation are essential if we're to be equitable and not equal – something borne out very clearly by our community feedback. This was also echoed by the Workplace Advisory Committee in a recent meeting where members, still in their early discussions about minimum wage policy, are leaning towards a more universal policy approach aimed at benefitting the broadest group of people possible, with accommodations made by implementation measures rather than by wholesale exemptions of industry or worker categories.

Considerations for food service/hospitality

As mentioned earlier in this report, we received a good deal of input from the food service/hospitality industry. The input we received from industry representatives was heavily focused on the (often) significant difference in take-home pay between the "back of the house" and the "front of the house." Addressing this issue is the core of whether or not tips are to be considered as part of an employee's wages.

During our engagement process, we heard from advocates who propose including tips in the calculation of wages along with a slow and steady ramp up toward $15/hr for all (Pathway to$15/Service Industry Staff for Change). We also heard that many are in favor of an across-the-board wage increase regardless of tipped income ($15 Now and others). To be clear, the industry itself readily acknowledges the gap among workers in restaurants; and, supports a policy that raises lower wages, though advocates supporting the restaurant industry also voiced strongly that such policies should not penalize tipped workers. In our state-level research, we found that jurisdictions across the nation were similarly divided as 27 of 51 states (53%) studied did not include tips in establishing a minimum wage policy.

As the table at right shows, Minneapolis has 800+ employers and about 70,000 workers in the food service sector. A policy change affecting this sector will have significant impact in the City.



In March 2014, the White House issued a report on minimum wages for tipped workers, and noted that states who require employers to pay the full federal minimum wage are in a better economic position, and that having a system that requires states to seek compliance on whether or not employers are actually making up the difference tips and minimum wage is hard to enforce:

> *"The rules for tipped workers are complicated and can be confusing for employers and employees alike. One of the most prevalent violations is the failure to keep track of employee tips and therefore the failure to "top up" employees if their tips fall short of the full minimum wage. Additionally, minimum wage compliance is determined on a weekly basis, such that tipped workers may earn less than the full minimum wage on any given shift. For example, a server is permitted to earn $2.13 per hour while working a slow shift as long as their tips and wages for the rest of the week ensure they earn an average weekly wage of at least $7.25 per hour."*

Importantly, Minnesota is one of currently 8 states that have voted to eliminate the inclusion of "tip credit" as part of the minimum wage calculations (other states include Alaska, California, Maine, Montana, Nevada, Oregon and Washington, though policymakers in Maine have introduced a bill to restore their tip credit provision that was eliminated by voter ballot just last year). Eliminated in 1984 by the State legislature, Minnesota's tip credit provision was intended to phase out slowly with an eventual end in 1988. In thinking through implementation options, it is sensible that Minneapolis' policy would conform to existing state policy wherever feasible.[26]

Considerations for youth

Another issue in which jurisdictions have split fairly evenly involves how youth in the labor market are treated with regards to minimum wage policies. The Minneapolis youth **labor force**, defined as anyone 16 -19 years of age who is a Minneapolis resident working or looking for work, is currently estimated to be nearly 22,000. About 50%, or 11,000 16-19 year olds, are working or actively looking for work. The Minneapolis youth workforce, defined as anyone 16 – 19 years of age working in Minneapolis but living anywhere, is about 6,000 individuals, which represents 5-7% of the overall workforce. Youth ages 14 – 15 years of age can and do work, but are restricted in a number of ways by federal law and so are not included in the statistics on working adults in the labor force. A minimum wage increase would impact 56% - 60%, as modeled at $12 and $15 per hour (per the Wilkins Study). The estimated unemployment rate for this demographic is considerably higher than other age demographic groups at about 27%.

For youth, several jurisdictions allow for an exemption from the minimum wage if youth (typically under age 24) are being referred or placed through a publicly-funded program and/or nonprofit service provider, many only lowering the wage level to be paid to 85% of the minimum wage. The STEP-UP program is an example of a publicly-funded program that places youth in summer internships. Nearly 2/3 of all STEP-UP youth wages are paid with government funds, the other 1/3 are paid by employers directly to youth working at their companies.

"There are currently 700 paid interns in Minneapolis. Youth employment would be adversely affected [by a minimum wage policy]. The current expectation is that Step-Up interns are paid $10.00 per hour. I'm not sure the program can absorb an increase [in the minimum wage] without a youth/training wage exception."

"A training wage should be considered as part of any policy. If I have to pay high school student $15 an hour we will have to eliminate those types of jobs. Automation is also a big issue and jobs are being eliminated. A higher minimum wage will push the restaurant industry to automation and will likely need to the elimination of jobs."

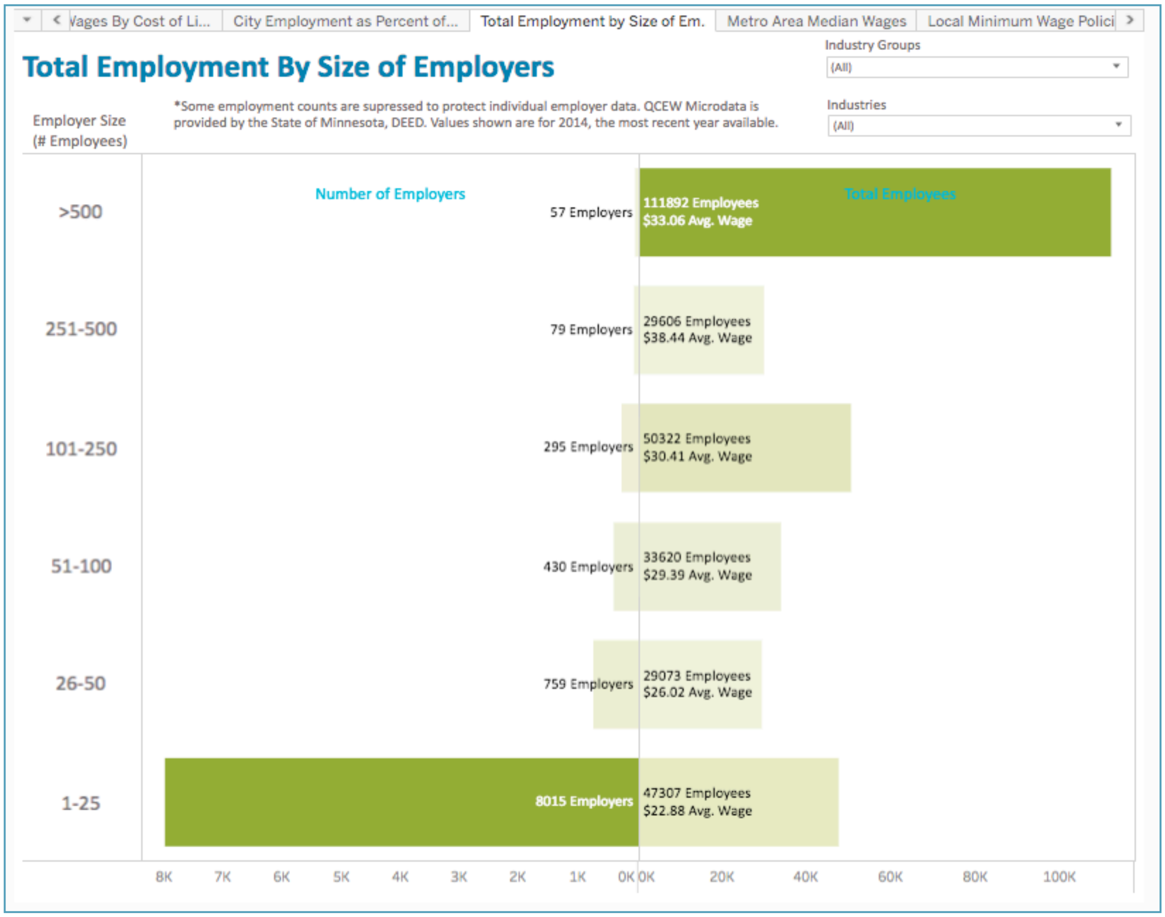
"Minneapolis has a great program called Step-Up, young student's intern at companies and get paid $10.00 per hour, would this proposal impact that program so essentially companies won't be able to hire as many interns? The City should think about exempting employees who participate in training programs like Step-Up."

"If there is an exemption for youth or seasonal, business owners will likely pass over people who need the work for the cheaper younger people who don't need the cash necessarily. This would be a huge problem."

Of the 10 jurisdictions that allow for a tiered phase in approach for youth workers, they use either a time period ranging from 90 days of employment up to 6 months) or a gradual phase in based on whether the youth is employed by a nonprofit or government entity. We received number of comments in listening sessions regarding whether to include a youth wage in a future Minneapolis policy. Sentiments included:

Considerations for small business exemptions

Based purely on who can "absorb" the cost of a wage increase, there is widespread belief that larger businesses can handle such increases more or better than smaller businesses. Hence, a division of business size (based on employee headcount and/or revenue) is worthy of some consideration. For an understanding of sizes of Minneapolis businesses, by employee count, see the chart below.



While acknowledging that the state has defined small business on the basis of revenue (those making $500,000 in revenue), we heard numerous people in the listening sessions and in survey results comment that revenue is not a fair or reasonable way to classify businesses, particularly as many businesses in Minneapolis are small/micro businesses. Many suggested net profit would be better and others still suggested basing it on number of employees, a calculation we saw in other states and which was most recently employed in the City's sick and safe time ordinance.

Policy Choices:

a) Policy applies to all workers in all businesses, with no exceptions.
b) Policy applies to all workers in all businesses, *but for the food service/hospitality industry*:
   i. Calculate wages based on earnings including tips. Twenty-two jurisdictions[27] include tips in the calculation of earnings (three of which phase-out when the maximum threshold is reached) with the argument that including tips is more equitable within a given industry (or organization) as it gives a raise to those earning less than the current minimum wage, while not limiting tipped income for tipped employees. Twenty-six jurisdictions, by contrast, felt that not including tips was, presumably fairer and easier. In our listening sessions and surveys, comments were about evenly split between employees and employers who favored including tips in earnings calculations and those who did not.

ii. Calculate wages on earnings not including tips. The implementation of a tip-counted policy requires the employee to reconcile her/his tip-included income with what an employer is recording as tip-included income. This creates a burden on the employee to identify potential wage theft which, in the end, could be a significant burden to pursue and runs counter to the State of Minnesota provision that prohibits employers from including tips earned in the calculation of wages, with respect to paying the state minimum wage.

c) Policy applies to all workers in all businesses, but for youth workers:
   i. Treat wages paid to youth under a certain age (16, 18, or 20) as training wages, with a lower minimum wage requirement for those trainees for a particular period of time. Based on other jurisdictions, a training wage could be 85% of the minimum wage, and a training period could be 90 days. Some language could also be added to ensure that "employers may take no action to displace an employee, including a partial displacement through a reduction in hours, wages, or employment benefits, in order to hire an employee at the [training] wage."
   ii. Differentiate youth employment by how a youth gained accessed to the job opportunity, either on-their-own or through a program, therefore creating a division between access points, then create a reduced program wage, similar in nature to the trainee wage, but limited to youth in government supported jobs programs.

d) Policy applies to all workers in all businesses, *but for small* businesses:
   i. Minimum wage is applicable to all businesses regardless of size, but small businesses are allowed an additional two years to phase-in to compliance; and/or,
   ii. Allow for a hardship exemption, by application, for small businesses.

Regarding definitions of "small business," we note that there are multiple standards in use at the City, County, and State level. Most typical are to categorize businesses by number of employees and/or revenue. Both can be difficult to document and verify in implementation. City Council may consider that when establishing the sick and safe time policy, an accommodation was made for micro businesses – those with five or fewer employees. In the current Minnesota minimum wage statute, which is enforced by the Department of Labor and Industry, the State makes a distinction for small businesses defined by revenue – something that would require enforcement staff to verify administratively on a case by case basis. In staff research efforts, we found other jurisdictions defined "small" based on amount of total employees that included a total count of employees per business regardless of location (for example, Seattle defined "large" employer as anyone with over 500 employees; others stuck to smaller numbers between 3 and 55).

Staff Recommendations:

1. Make no exception for tipped workers in the hospitality industry – all workers are subject to minimum wage, regardless of tips, consistent with the state policy. However, as indicated below, phase in implementation based on size of business which would in effect allow for a longer phase in period for most of our local restaurants.

2. Establish a training wage that may be paid to youth ages 20 years for no more than 90 days consistent with current state law. Following precedent in many other jurisdictions, a training wage could be set at 85% of the minimum wage. Youth workers are subject to the full minimum wage when the training period ends (*i.e.,* after 90 days). All workers aged 21 and over are treated equally in regards to the minimum wage policy.

3. Allow an extended implementation for smaller and micro businesses that comports to what staff saw in other jurisdictions, extending the phase in period to an additional 1-2 years beyond the final date at which larger businesses achieve the targeted minimum wage level.

V. ADDITIONAL CONSIDERATIONS

We offer a few additional recommendations beyond the critical policy components above for consideration:

- **Enforcement:** Assuming a policy is enacted, we note that the City of Minneapolis has invested in a staff capacity to enforce sick and safe time and it would seem prudent to follow that example, housing minimum wage enforcement within Civil Rights.

- **Evaluation:** Other jurisdictions have implemented a regular review of their policy, including an annual evaluation of the impact on the local economy, and an examination of how the policy implementation specifically impacts tax receipts, wages, and unemployment rates for Minneapolis workers. Such cities have also included language that allows policy makers to temporarily suspend a minimum wage increase in the event the result of these annual financial reviews indicate their local economy simply cannot sustain an increase in minimum wage levels at the time. We note too that an additional recommendation would be to perform a periodic evaluation of the impact of this policy on the larger regional economy, similar to that performed by the University of Washington.

  Given the scarcity of conclusive evidence such minimum wage policies have on local economies, we strongly recommend inclusion of such evaluations to ensure that the City remains vigilant as to how such its municipal minimum wage policy is impacting its local economy and the region, and allow for policymakers to safeguard against any unintended consequences that could arise in the future.

- **Continue to find ways to support businesses, and small businesses in particular:** This report makes mention of the "shared responsibility" between Minneapolis businesses and the City of Minneapolis to ensure that those working in Minneapolis have sufficient income to meet an affordability threshold for living in Minneapolis. Commenters throughout the process offered ideas about programs/support that could be offered to Minneapolis businesses to offset the burden of paying higher wages; as well as, the opportunity for programs/services that offset cost of living burdens for Minneapolis residents. We note here that about 25% of Minneapolis workers are Minneapolis residents. Therefore, providing additional services/programs for Minneapolis businesses and/or Minneapolis residents would have impact far beyond that intersection – serving residents who work outside of Minneapolis and addressing businesses who employ people outside of Minneapolis.

As with most complex topics, there are multiple dimensions to this policy decision. For many, it's a clear step toward helping lowest-income earners move up the economic ladder. For many others, it's an obvious intrusion into a private market space between employers and employees. There was clear and positive agreement among most who participated in this engagement process that most everyone wants a thriving a vibrant Minneapolis that offers a fair economic environment for workers and businesses alike. The findings presented here attempt to reinforce these points of agreement and offer recommendations to City Council that invite an intentional and shared communal response that includes business owners, public leaders and workers themselves.

VI. ACKNOWLEDGEMENTS & ENDNOTES

We could not have proffered this report without the many community voices we heard throughout the process. Residents, workers and businesses alike share their thoughts openly, candidly and with a spirit of cooperation that we hope finds itself woven into our work. We thank everyone who lent their time and their voice to our process.

We also would like to express thanks and appreciation to all City staff and partners who whose efforts contributed significantly to the group's work including the City Coordinator's Office, the City Clerk's Office, Community Planning and Economic Development, Intergovernmental Relations, the Health Department, Neighborhood & Community Relations, and the City Attorney's Office.

Specific City of Minneapolis staff who contributed to listening sessions, business meetings, research, and other support include: Sasha Bergman, Mark Brinda, Andrew Dahl, Peter Ebnet, David Frank, Christina Kendrick, Erik Nilsson, Nuria Rivera-Vandermyde, and Jeff Schneider. Special thanks too to our consultants - Cat Beltmann (So Good Consulting) and Luke Weisberg (LukeWorks) – who supported staff in all aspects of the listening sessions, business meetings, research and drafting of this report.

[1] It should be noted that, given data limitations, analytical tools employed in this study modeled county-level economic models, rather than Minneapolis-specific models. As such, a Minneapolis-specific policy change may have different outcomes from those projected in the study.

[2] Roy Wilkins study, Technical Report, p.19.

[3] Report On The Impact Of Seattle's Minimum Wage Ordinance On Wages, Workers, Jobs, And Establishments Through 2015, University of Washington Minimum Wage Study Team, Evans School of Public Affairs, p.4.

[4] Effects of a $15 Minimum Wage in California and Fresno By Michael Reich, Sylvia Allegretto and Claire Montialoux With the assistance of Ian Perry, Center on Wage and Employment Dynamics at UC Berkeley's Institute for Research on Labor and Employment (IRLE), January 2017, p.7.

[5] The Effects of a $15 Minimum Wage in New York State by Michael Reich, Sylvia Allegretto, Ken Jacobs and Claire Montialoux With the assistance of Annette Bernhardt, Laurel Lucia, Ian Perry and Sarah Thomason, Center on Wage and Employment Dynamics, Institute for Research on Labor and Employment University of California, Berkeley. A diagram showing the multiple points of impact (and their interplay with each other) is also available in the Appendix.

[6] Federal minimum wage is currently $7.25/hr and state minimum wage is $7.75/hr.

[7] DEED calculator for a "typical" family of three in Hennepin County.

[8] Workers earning $7.80/hr earn approximately $16.224. Current federal poverty guidelines indicate that a family of 2 earning $16,020, is in poverty.

[9] Per federal poverty guidance, we note that earners at $15/hr working full-time earn about $31,200 which is still below 200% of the federal poverty line – typically considered to be living in poverty by some federal program definitions.

[10] A Fair Deal for Chicago's Working Families, p 7.

[11] Minimum Wage Basics - City Minimum Wage Laws: Recent Trends and Economic Evidence. National Employment Law Project. April 2016. http://campaign.nelp.org/page/-/rtmw/City-Minimum-Wage-Laws-Recent-Trends-Economic-Evidence.pdf?nocdn=1.

[12] Using 2Q2015 data compiled by CPED. See Appendix for "Number of people employed in Minneapolis by sector by race and ethnicity, 2015 Q2."

[13]https://tableau.minneapolismn.gov/views/MinimumWagesPolicyDetails/MinimumWageComparativeDataTool?:embed=y&:showShareOptions=true&:display_count=no&:showVizHome=no

[14] Changing Compensation Costs in the Minneapolis Metropolitan Area, March 2017, US Bureau of Labor Statistics.

[15] From Compass: in 2014, 194, 381 foreign-born workers worked in the Twin Cities region, as compared to 1,545,307 adults working in the region.

[16] Income and Health Fact Sheet, City of Minneapolis, December 2016 http://www.minneapolismn.gov/www/groups/public/@health/documents/webcontent/wcmsp-192111.pdf.

[17] Tsu-Yu Tsao et al. "Estimating Potential Reductions in Premature Mortality in New York City From Raising the Minimum Wage to $15", *American Journal of Public Health* 106, no. 6 (June 1, 2016): pp. 1036-1041.

[18] This conclusion was reached using data from the US Census Bureau Longitudinal Employer-Household Dynamics "On the Map" tool. The Appendix contains an analysis (using 2014 numbers) of the number of jobs, workers, and residents in Minneapolis. The dataset allows us to compare the lowest wage-earners from among both residents and workers. The healthcare, retail, and food service/accommodation sectors correlate highly, suggesting that a substantial number of the workers in these sectors are also

the residents from the dataset. So, although difficult to precisely identify all Minneapolis residents working in Minneapolis, we are confident that the lowest wage earners who are the target of this potential action are likely also Minneapolis residents.

[19] A number of respondents noted that using the $500,000 revenue threshold to define large vs. small businesses was not an adequate way to classify businesses and that employer size should be calculated differently.

[20] A total of 1378 individuals responded to this question with 626 (45%) selecting the Not Applicable option. It's important to remember that well over 75% of survey respondents were employees or employee advocates. When factoring Not Applicable response into the results the percentage of respondents who state they would decrease their workforce drops to 26%.

[21] This is the hourly wage at which adults in a household need to earn to support a household with two adults (I FT employed, and 1 PT employed) with one child according to the "living wage" tool managed by DEED. For more on this, see the Appendix.

[22]These peer cities include: Atlanta, Austin, Boston, Chicago, Dallas-Ft. Worth, Denver, Phoenix, Pittsburgh, Portland, San Francisco, and Seattle

[23]"What a $15 Minimum Wage Would Mean for Your City", Noam Scheiber, New York Times, August 12, 2015

[24] During our listening sessions and other public outreach efforts, there were multiple suggestions for additional tools to address affordability. One often-repeated option was a "renter's credit" to help make housing more affordable for lower-income renters. Some participants also suggested means-tested solutions (*i.e.*, a policy specifically targeting lower-income Minneapolis residents) that would address affordability issues. As an example, it was suggested that Minneapolis craft a Minneapolis-specific add-on to the Minnesota Working Family Credit that would specifically support lower-income workers living in Minneapolis. At issue here, in addition to cost and will to act by Minneapolis leaders, is a potential mismatch between a minimum wage policy focused on individuals *working in* Minneapolis and other programs/policies aimed at individuals *living in* Minneapolis. For more information about the MN Working Family Credit, see:
http://www.revenue.state.mn.us/individuals/individ_income/Pages/Working_Family_Credit.aspx

[25] This calculation takes the median metropolitan wage and escalates it by 2.4% annually per CBO estimate.

[26] The National Employment Law Project (NELP) issued a brief in February 2017 specifically highlighting Minnesota's wage structure for tipped workers. See, "Minnesota Has Consistently Rejected a Lower Minimum Wage for Tipped Workers – and Minneapolis Should Not Consider One Now", March 2017.

[27] Seattle's ordinance included a tip credit that, from the start, was expected to phase out over seven years. Other jurisdictions including Richmond, CA; Montgomery County, MD; Albuquerque, NM and surrounding county; and Seattle, WA also include the value of employer-provided healthcare coverage in their calculation of earnings.