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POLICY BRIEF

Citizens Guide to Initiative 1433: to increase the state minimum wage and to require paid sick leave

Erin Shannon
Director, Center for Small Business and Labor Reform

September 2016

1. *Initiative 1433 would increase the state's minimum wage to $13.50 by 2020 and require employers to provide paid sick leave for every worker starting in 2018.*

2. *The paid sick leave provisions in Initiative 1433 are more generous and more broadly applied than the limited paid sick leave mandates that officials imposed in the cities of Seattle, Tacoma and Spokane.*

3. *There is no accommodation for small business; a business employing two workers would have to give the same amount of paid sick time as businesses with 5,000 workers.*

4. *There is no limit to how much paid sick leave a worker could accrue or use each year.*

5. *Initiative 1433's paid sick leave mandate would impose significant costs on the state's smallest employers, who would be forced not only to pay the wages of the worker using paid sick leave hours, but also the wages of the employees doing the work of those out on sick leave.*

6. *The harmful effect of an artificially high minimum wage on low-skill workers was noted by University of Washington researchers studying the initial impacts of Seattle's $15 minimum wage law.*

7. *While Seattle's lowest-wage workers are earning slightly more than they were before the new wage law took effect, they have suffered reduced hours and lower rates of employment. These cutbacks in work hours have largely offset the slight wage gains of some workers.*

8. *The UW study found that despite the city's hot economy, Seattle's low-wage workers are "lagging behind" their counterparts in other cities with less robust economies.*

9. *The UW study warns against assuming a higher statewide minimum wage would have the same modest effects as Seattle's new wage law, noting the impact could be significantly negative in regions where the local economy is not as strong as Seattle's.*

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Introduction

This fall, voters will have their say on whether the state's minimum wage should be increased again, beyond the current $9.47 per hour that automatically increases every January based on inflation. Initiative 1433 would increase the state minimum wage to $13.50 by 2020, with future automatic increases indexed to inflation.

In addition, the measure would, for the first time, require all employers to provide mandated paid sick leave for every worker starting in 2018.

This Citizens' Guide summarizes the ballot proposal and describes how the policy changes it requires would alter current law and affect employers, workers and consumers in Washington state.

Background

The federal minimum wage is $7.25 per hour, but many states and cities have opted to impose their own, higher minimum wage.

In 1998, voters in Washington approved Initiative 688, which increased the state's minimum wage and required a cost-of-living increase every year based on the federal Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). In effect, officials use the Seattle-area inflation rate to increase the statewide mandated wage annually.

Following passage of Initiative 688, Washington's minimum wage was the highest of any state in the nation for many years. In 2016, the states of Alaska, California, Connecticut, Massachusetts, Oregon and Rhode Island imposed higher minimum wage rates. New York passed a new minimum wage law in 2016 that will push that state's minimum wage higher than Washington's current $9.47 when it goes into effect on December 31, 2016.

Several cities in Washington now also have higher minimum wages than the current statewide amount. The city of SeaTac mandates a $15 minimum wage for certain employees in the hospitality and transportation industries, Seattle passed a $15 wage law in 2014 that will be fully phased in for all workers by 2021 (currently between $10.50 and $13.00 depending on the size of the employer, whether health benefits are offered and if tips are earned), and in 2015 Tacoma voters approved a $12 per hour city minimum wage law phased in over two years (currently at $10.35).

Similarly, several states have passed paid sick leave laws on employers in recent years. Connecticut was the first state to impose such a law, followed by California, Massachusetts, Oregon and Vermont. Twenty-six cities around the country have imposed paid sick leave laws, including the Washington cities of Seattle, Tacoma and Spokane.

Supporters of a higher state minimum wage and mandated paid sick leave have attempted to pass such laws in the Washington state legislature for several years, with no success.

Initiative 1433 gives voters the final say on whether Washington's minimum wage should be increased to $13.50 and whether employers should be required to provide every worker paid sick leave.

Policy Analysis

Mandating Paid Sick Leave

For the first time, Initiative 1433 would require every employer to provide paid sick leave to every worker starting in 2018.

Workers would receive one hour of paid sick leave for every forty hours worked, and they could begin using the leave after 90 days of employment. Employees would be allowed to carry over 40 hours of unused paid sick leave every year, with no limit to how many days of accrued paid leave could be used in a year.

To put it in perspective, this means a worker could accrue unlimited hours of paid sick leave in one year, use some of those hours and carry over to the following year up to 40 of the unused hours, accrue unlimited hours that following year, and then use all of those hours plus the 40 they carried over at once. The state's smallest employers could find themselves forced to offer two to three weeks of paid leave for one worker.

Initiative 1433 would impose significant costs on the state's smallest employers, who would be forced not only to pay the wages of the worker using paid sick leave hours, but also the wages of the employees doing the work of those out on sick leave.

Supporters of paid sick leave point to the seeming success of Seattle's paid sick leave policy as evidence it will have no negative impacts. However, it must be noted that the paid sick leave provisions in Initiative 1433 are more generous and more broadly applied than the limited paid sick leave mandates that officials imposed in Seattle, Tacoma and Spokane.

Seattle's paid sick leave law imposed in 2012 exempts small businesses with fewer than four employees. New companies with fewer than 250 employees are exempt from the paid leave requirement for 24 months after the hire date of their first employee. Workers in Seattle must work 240 hours before they can accrue paid leave hours, and must work 180 days before they can use paid sick leave hours. Workers are limited to using and carrying over between 40-72 paid leave hours per year (depending on the size of their employer).

The Seattle law also exempts unionized workers, a concession strongly sought by the city's powerful labor unions. The special exemption is a tacit acknowledgement by union executives that one-size-fits-all benefits imposed by law are not in interest of their members.

Under the new law that passed in 2015, all employers in Tacoma must provide paid sick leave, but workers in that city must work 180 days before they can use paid sick leave hours, are capped at earning 24 hours of paid sick leave per year, may carry-over only 24 hours and are limited to using 40 hours per year.

Spokane's paid sick leave law, which will not go into effect until January 1, 2017, provides newly licensed businesses with a one-year grace period from providing paid sick leave. Workers of businesses with less than 10 employees can use 24 hours of paid sick leave in a year, while employees of businesses with 10 or more employees are capped at using 40 hours of paid sick leave in a year. Employees are limited to carrying over up to 24 hours of earned paid leave not used in the prior year.

In contrast, under Initiative 1433:

- There is no provision for small businesses. A business employing two workers would have to give the same amount of paid sick time as businesses with 5,000 workers.
- Workers would be eligible to take paid sick leave hours after just 90 days.
- There would be no maximum limit on how much paid sick leave could be accrued.
- There would be no maximum limit on how much paid sick leave an employee could use in a year.
- Up to 40 hours of unused paid leave could be carried over to the following year.

Clearly the broad provisions of the paid leave mandate under Initiative 1433 would create a heavy burden on the state's employers, especially the smallest businesses. Even larger employers, though, report that the more narrowly applied paid leave provisions imposed by the cities are costly.

The owner of eight McDonald's restaurants in Seattle, which employ about 500 workers, says the city's paid sick leave mandate has significantly increased his costs.[1] First he had to pay to update his payroll software to track the accrual and use of paid leave hours to comply with the new law. Then came the dual costs of paying the wages of workers who take the paid leave, while paying another worker to fill in. He also says workers are calling in sick "a lot more" than before the law was in place. Research shows many workers see paid sick leave as paid vacation and use the mandated paid time off whether illness is involved or not.[2]

The employer reports that Seattle's sick leave mandate increased his costs by $17,600 per restaurant in the first year and by $19,200 per restaurant in the second year. That is an increase of $153,600 per year for all of his Seattle locations. He says roughly two-thirds of those higher costs are the result of paying wages to workers who call in sick, with the remaining one-third the cost of paying the workers who cover those last-minute shifts.

His businesses' low profit margin of just 5% to 6% forced him to raise menu prices in his eight Seattle stores. Multiple studies show this is a typical response to the increased costs of a paid sick leave mandate.[3] The added cost of paid sick leave also has the effect of suppressing job opportunities for some workers as employers favor workers who will be less inclined to take sick days, or seek to reduce their workforce by increasing automation.

Increasing the Minimum Wage to $13.50

Under the proposed Initiative 1433, by the year 2020 it would be illegal for any person over the age of 15 who works in Washington state to accept employment for less than $13.50 per hour. Workers who are willing to work for less would be forced into the state's underground labor market.

Under Initiative 1433, the state's minimum wage would increase to $11.00 in 2017, $11.50 in 2018, $12.00 in 2019, and $13.50 in 2020. The minimum wage would then go up automatically every year according to inflation.

Supporters of Initiative 1433 say the higher wage would "lift up workers and families across this state and boost our local economies." Of course, only those who could find a job and remain employed would be "lifted up." Many

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1 "Businesses elsewhere report few problems with sick leave laws," by Kathleen Cooper and Kate Martin, *The News Tribune*, March 8, 2015, at www.thenewstribune.com/news/politics-government/article26263825.html.

2 "The Labor Market Impacts of Paid Sick Leave: Evidence from Connecticut," by Dr. Thomas Ahn, University of Kentucky, for Employment Policies Institute, August 2016, at www.epionline.org/wp-content/uploads/2016/08/Paid-Sick-Leave-Study-4.pdf.

3 "Paid leave would cost non-union employers over $1.5 billion annually," by Erin Shannon, Legislative Memo, Washington Policy Center, March 2015, at www.washingtonpolicy.org/library/docLib/Shannon-_Paid_leave_would_cost_non-union_employers_over_1.pdf.

young people, minorities, immigrants and other low-skill job seekers would be priced out of the labor market.

This harmful effect on low-skill workers was noted by University of Washington (UW) researchers who studied the impact of that city's new $15 minimum wage law.

The Seattle Experience with a High Minimum Wage

The UW study, which examined the first year implementation of the city's minimum wage law, revealed some of the harmful consequences of that new law. While Seattle's lowest-wage workers who remain employed are earning slightly more than they were before the new wage law took effect, they have suffered reduced hours and lower rates of employment, the study found. These cutbacks in work hours have largely offset the slight wage gains of those workers.[4]

Ironically, the study found the earnings gains those low-wage workers enjoyed would have happened anyway, thanks to Seattle's booming economy. The UW researchers found that, "most, if not all" of those higher earnings are due more to the region's booming economy than to the wage law itself. At the most, 25% of low-wage workers' income gains, just a few dollars a week, on average, can be attributed to the city's wage mandate.

So the strong economy would have naturally increased wages, and those naturally occurring gains would not have resulted in what the study calls the "negative, unintended consequence" of fewer hours and reduced employment.

Even worse, as a result of what the study called the "negative unintended consequence" of the city's $15 wage law, Seattle's lowest wage workers are actually doing worse compared to low-wage workers in other parts of the state since the wage law took effect. The UW study found that despite the city's hot economy, Seattle's low-wage workers are "lagging behind" their counterparts in other cities with less robust economies.

As the UW study summarized:

> "The major conclusion one should draw from this analysis is that the Seattle Minimum Wage Ordinance worked as intended by raising the hourly wage rate of low-wage workers, <u>yet the unintended, negative side effects on hours and employment muted the impact on labor earnings</u>. [emphasis added]
>
> The Seattle economy (as well as comparison regions in the state of Washington) is booming, and this strong macroeconomy has led to

4 "Report on the Impact of Seattle's Minimum Wage Ordinance on Wages, Workers, Jobs, and Establishments Through 2015," by The Seattle Minimum Wage Study Team at the University of Washington, July 2016, at https://evans.uw.edu/sites/default/files/MinWageReport-July2016_Final.pdf.

improved outcomes for low-wage workers. Yet, our best estimates find that the Seattle Minimum Wage Ordinance appears to have lowered employment rates of low-wage workers. This negative unintended consequence (which are predicted by some of the existing economic literature) is concerning and needs to be followed closely in future years, because the long-run effects are likely to be greater as businesses and workers have more time to adapt to the ordinance. Finally, we find only modest impacts on earnings. The effects of disemployment appear to be roughly offsetting the gain in hourly wage rates, leaving the earnings for the average low-wage worker unchanged."[5][emphasis added]

These alarming findings come on the heels of the first phase of the UW study that was released in April—the research team found that while grocery, retail and rent prices in Seattle increased by a couple of percentage points since the wage law went into effect, prices in the restaurant and fast food industry, which rely heavily on minimum wage workers, increased an average of 9% from just a year ago.[6] That figure is more than ten times the rate of consumer inflation.

In that same study, many Seattle employers reported they will no longer hire unskilled and inexperienced workers for entry-level jobs. This leaves unemployed workers who need entry-level jobs the most with fewer opportunities to work.[7]

Now this second phase of the UW study shows the "negative, unintended consequence" of reduced hours and fewer employment opportunities for the lowest-wage workers in Seattle, whom the higher wage is supposed to benefit.

The first two UW studies only covered the initial phase-in of the city's $15 wage law. The law went into effect on April 15, 2015 and increased the minimum wage up to $11. The study examined the subsequent nine months. On January 1, 2016, the next phase of the wage law was implemented, with a minimum wage of up to $13 per hour. The UW researchers have yet to study those impacts. Given the findings of the first two studies, researchers will likely find further "unintended, negative side effects" created by the higher mandated wage.

In their conclusion, the UW researchers warn against assuming a higher statewide minimum wage, such as the $13.50 wage proposed in Initiative

5 Ibid.

6 "Report of Baseline Employer Survey and Worker Interviews," by The Seattle Minimum Wage Study Team at the University of Washington, April 2016, at http://evans.uw.edu/sites/default/files/MinWageReport_April2016.pdf.

7 Radio interview with University of Washington Seattle Minimum Wage Study Team leader, Professor Jacob Vigdor, *The John Carlson Show*, KVI radio, April 21, 2016 at http://kvi.com/podcast/carlsoncast-april21-2016-hour3.

1433, would have the same modest effects as Seattle's wage law. They point out a high minimum wage could have significant negative impacts on regions where the local economy is not as strong as Seattle's:

> "Seattle's strong economy may make it capable of absorbing higher wages for low-wage workers, and this capacity may not be present in other regions."

Of course, even with the strong local economy, Seattle's low-wage workers are not doing as well as low-wage workers in other parts of the state. The harm to low-wage and unemployed workers is already occurring, even under the city's first phase-in of the minimum wage at $11 an hour.

What will the impacts be of the current $13 wage on low-wage workers in the city, or the final wage of $15? And what happens when Seattle's economic boom sputters out? Only time will tell.

Conclusion

Unfortunately, we do not have the luxury of time before voters cast their ballots this fall on Initiative 1433. We do not know for certain what the "unintended, negative side effects" might be of a higher minimum wage be in cities and smaller communities around the state whose economies are not nearly as strong as Seattle's, and whose cost of living is much lower.

For example, the cost of living is so low in Kennewick that workers living in that city and earning the state minimum wage of $9.47 enjoy the nation's highest "real" minimum wage. Spokane ranks 3rd in the nation and Yakima ranks 7th, thanks to those cities' below average cost of living.[8]

The flip side to those below average costs of living is higher than average unemployment rates. Yakima's unemployment rate is a high 7.2%, compared to the state's overall rate of 5.7%. Kennewick's unemployment rate is slightly better at 6.6%, with Spokane at 6.8%.[9] These figures show the difficulty many people in Washington already have in finding work at the state's current mandated wage rate of $9.47 an hour.

Workers who cannot find a job today would not benefit from a $13.50 mandated wage or a paid sick leave mandate, and they would likely have an even harder time finding a job.

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8 "The Cities with the Highest (and Lowest) Real Minimum Wage-2016 Edition," SmartAsset.com on May 5, 2016 at https://smartasset.com/mortgage/the-cities-with-the-highest-and-lowest-real-minimum-wage-2016-edition.

9 "Unemployment Rates for Metropolitan Areas-July 2016," U.S. Department of Labor, Bureau of Labor Statistics, accessed September 21, 2016, at www.bls.gov/web/metro/laummtrk.htm.

The UW study of Seattle indicates that a mandated statewide wage of $13.50 would likely have much wider harmful effects in communities across the state that do not enjoy Seattle's booming tech economy, especially in reducing paid hours for low-wage workers and making it harder for unemployed young and low-skilled workers to find employment.

These harmful effects would likely be amplified in border communities in Eastern Washington, where businesses must compete with employers in Idaho who pay a much lower state minimum wage of $7.25 per hour. Not only would Washington's employers be at a competitive disadvantage due to their increased cost of doing business, the higher wage would increase the competition for jobs as workers from Idaho cross the border into Washington in search of higher wages. More competition for jobs that are already scarce in many cities would put even more pressure on unemployed and low-skill workers.

The policies imposed by Initiative 1433 would push more young people, minority workers and immigrant families into what the academics politely call "disemployment." That is, they would not find work because employers would find that state law makes it too costly to hire them. Economic realities would force employers to favor older, more experienced and more productive workers, to make it worthwhile for the employer to pay the higher wages and mandate paid leave benefits the law would require.

Washington is already struggling with the nation's 7th highest jobless rate, creating real hardship for the unemployed and low-income families across the state.[10] The policies required under Initiative 1433 would make Washington's employment situation worse, by imposing even more limitations on the state's labor market.

10 "Unemployment Rates for States-July 2016," U.S. Department of Labor, Bureau of Labor Statistics, accessed August 29, 2016, at http://www.bls.gov/web/laus/laumstrk.htm.

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If you have any comments or questions about this study, please contact us at:

Washington Policy Center
PO Box 3643
Seattle, WA 98124-3643

Online: www.washingtonpolicy.org
E-mail: wpc@washingtonpolicy.org
Phone: (206) 937-9691

About the Author

Erin Shannon is director of WPC's Center for Small Business and Labor Reform. Before joining Washington Policy Center in 2012, she was the Public Relations director of Washington state's largest pro-small business trade association, and was formerly a Legislative Correspondent for U.S. Congressman Randy Tate in Washington, D.C. Over the past 15 years Erin has appeared regularly in print, broadcast and radio media. She was a recurring guest on ABC's "Bill Maher's Politically Incorrect" until the show's cancellation in 2002, and participated in a live, on-stage version of Politically Incorrect in Seattle with Bill Maher. Erin has served as the spokesperson for several pro-small business initiative campaigns including Referendum 53, repealing increases in unemployment insurance taxes; Initiative 841, repealing the state's ergonomics rule; and Initiative 1082, to end the state's monopoly on workers' compensation. Erin holds a bachelor's degree in political science from the University of Washington.