



POLICY BRIEF

Citizens' Guide to Tacoma Initiatives 1 and 1B: Increasing the Minimum Wage

Erin Shannon
Director, Center for Small Business

October 2015

1. *This November, people in the City of Tacoma will vote on two different measures to increase the city's minimum wage. Alternatively, voters will have the option of rejecting both measures.*
2. *Initiative 1 would increase the minimum wage that most employers in the city must pay to \$15 an hour, effective immediately. Micro-businesses with less than \$300,000 annual gross revenues would be exempt.*
3. *If passed, Initiative 1 would be the most dramatic mandated minimum wage increase in history, since it includes no phase-in and no exemption based on employer size. It would rank the City of Tacoma with the highest minimum wage in the nation.*
4. *City officials would receive extraordinary regulatory powers under Initiative 1. In addition to the authority to establish and implement the new law, city officials would be granted "police powers to enforce the minimum wages."*
5. *Employers that violate the provisions of Initiative 1 would face criminal prosecution and severe financial penalties. They could be found guilty of a class B felony.*
6. *Initiative 1B would increase the minimum wage that all employers in the city must pay to \$12, phased in over three years. There would be no exemptions.*
7. *A willful violation of Initiative B's wage mandate could result in civil penalties of at least \$250 or an amount equal to two times the total value of unpaid wages.*
8. *Neither measure includes a source of funding for the city to implement and enforce the new wage law, which could strain the city's limited resources.*
9. *Initiative 1B's phased-in \$12 wage would be less dramatic than Initiative 1's immediate imposition of \$15, but both measures would significantly increase labor costs and would have an impact on employment opportunities for entry-level workers.*
10. *Entry-level, low-wage jobs are a steppingstone to earning more money later in life. Two-thirds of minimum wage earners receive a raise within the first year.*
11. *Tacoma workers already enjoy one of the nation's highest "real" minimum wages. When controlled for living costs, the purchasing power of the minimum wage in Tacoma is greater than all but nine of the largest cities in the nation.*



POLICY BRIEF

Citizens' Guide to Tacoma Initiatives 1 and 1B: Increasing the Minimum Wage

Erin Shannon
Director, Center for Small Business

October 2015

3	<i>Introduction</i>
3	<i>Background</i>
5	<i>Policy Analysis</i>
8	<i>What Business Owners Say</i>
9	<i>Conclusion</i>

Citizens' Guide to Tacoma Initiatives 1 and 1B: Increasing the Minimum Wage

Erin Shannon
Director, Center for Small Business

October 2015

Introduction

This November, people in the City of Tacoma will vote on two different measures to increase the city's minimum wage.

Initiative 1 would increase the minimum wage that most employers in the city must pay to \$15 an hour, effective immediately. Initiative 1B would increase the minimum wage that all employers in the city must pay to \$12, phased in over three years. Alternatively, voters will have the option of rejecting both measures, if they think the minimum wage should not be raised by these dollar amounts.

Following a description of Initiative 1 and Initiative 1B, voters will be asked: "Should either of these measures be enacted into law?"

If a majority of voters respond "No" to this question, both Initiative 1 and Initiative 1B would fail. If a majority of voters respond "Yes," then one of the measures would become law.

A second question asks voters, regardless of the answer to the first question, if one of these measures is enacted, which measure should it be?

Regardless of how a voter answers the first question, every voter should identify which of the two alternative measures they prefer, Initiative 1 or Initiative 1B. The measure that receives the most votes wins. Identifying a preference of Initiative 1 or Initiative 1B allows voters that oppose any increase to still influence which of the two measures would become law.

This Citizens' Guide summarizes the ballot proposal and describes how the policy changes it requires would affect workers and business owners in the City of Tacoma.

Background

In 2014, 15 Now Tacoma, a community action group, presented the Tacoma City Council with a petition signed by 1,000 Tacoma residents asking the city to enact a "meaningful" \$15 minimum wage law.¹ After the city "failed to act on this entirely reasonable request," 15 Now Tacoma filed a citizens' initiative to amend the City of Tacoma's charter to mandate a \$15 minimum wage. 15 Now Tacoma activists said

¹ "About 15 Now Tacoma," at <http://15nowtacoma.info/about-15now-tacoma/>.

the measure would “put into place the strongest local minimum wage law in the nation, with no phase-in, and a meaningful [i.e. strict] enforcement mechanism.”²

After gathering and submitting 3,321 valid signatures in June 2015, activists with the 15 Now Tacoma campaign qualified their ballot measure to immediately increase the minimum wage in the City of Tacoma to \$15 an hour. Initiative 1 asks voters to decide whether they want to require nearly every worker in the city to immediately receive a minimum wage of \$15 per hour, with no phase-in or tiers based on employer size. Voters will also decide whether they want employers who pay less than \$15 to go to jail.

Amidst concerns that voters would consider the 15 Now Tacoma measure too extreme, or alternatively, that voters might approve such an extreme measure, union executives and some members of the business community pushed the city to propose a smaller, phased-in increase. In response, the mayor of Tacoma convened a special task force in May 2015 to come up with a competing minimum wage proposal.³

The business representatives said they feared a well-funded campaign financed by labor unions, the kind that successfully financed \$15 wage campaigns in SeaTac and Seattle. Fearing a similar outcome in Tacoma, business owners reasoned they should try to head-off the radical \$15 Now Tacoma ballot measure by agreeing to a higher minimum wage (but not as high as \$15) and including a phase-in period.⁴

Labor executives similarly claimed they feared the business community would spend “ungodly amounts of money” to oppose the far-reaching 15 Now Tacoma ballot measure.⁵ They said they wanted city officials to avoid a costly battle at the ballot by passing a different wage law.

Given the funding organized labor has committed to other \$15 wage efforts, that concern seems unlikely. Unions spent \$1.4 million on the \$15 wage measure in SeaTac, outspending opponents two to one. In Seattle, they spent \$2.6 million promoting passage of that city’s \$15 wage law. Since 2011, the Service Employees International Union (SEIU) has spent \$8.9 million promoting the \$15 minimum wage movement in Washington.

It is likely that labor’s bigger concern was 15 Now Tacoma’s measure would “go down in flames,” which organized labor admitted would be a “setback” to the broader \$15 wage movement.⁶

However, labor officials made it clear they had not completely abandoned the restrictive 15 Now Tacoma ballot measure. They admitted it would be the big stick they would use to get the higher wage they deem acceptable. Labor executives made

2 Ibid.

3 Tacoma Minimum Wage Task Force, at www.cityoftacoma.org/cms/one.aspx?objectId=81129.

4 “Big labor not yet backing Tacoma group behind minimum wage ballot measure,” *The News Tribune*, by Kathleen Cooper, June 13, 2015 at www.thenewstribune.com/news/local/article26299696.html.

5 Ibid.

6 Ibid.

clear the threat that if the Tacoma Minimum Wage Task Force proposal did not meet their approval or the city council did nothing, they would press voters to pass the radical 15 Now proposal.

Such machinations are how Seattle settled on its new \$15 minimum wage law. Union executives used the explicit threat of an extreme ballot measure to convince key Seattle business leaders that compromise was their best course. The business community accepted. Rather than risk voters passing the extreme version, they agreed to help craft the city's phased-in \$15 minimum wage law.

Ultimately, on July 13, 2015 the Tacoma City Council voted 7-1 to put a competing initiative on the ballot. Initiative 1B would increase the city's minimum wage to \$12 over three years, beginning February 2016.

Policy Analysis

Tacoma voters will face one of the more complex ballots in November. In an effort to ascertain whether voters want any increase in the city's minimum wage of \$9.47 (beyond the automatic, annual statewide inflation increase), city officials have designed a two-part minimum wage ballot.

The ballot presents two questions. The first asks whether either minimum wage measure should be enacted. The second question is, regardless of the answer to the first question, if one of these measures is enacted, which measure should it be?

If a majority of voters vote "No" on the first question, then both measures will fail. If a majority of voters vote "Yes" on the first question, then the measure receiving the greatest number of votes in the second question will be adopted. It is important that voters answer the second question regardless of how they voted on the first question.⁷

While a voter may be opposed to any increase in the minimum wage, voting on the second question allows them important input on a minimum wage increase should a majority of voters answer "Yes" to the first question.

1. Summary of Initiative 1

Initiative 1, the measure sponsored by 15 Now Tacoma, would increase the minimum wage to \$15 per hour for workers in Tacoma immediately.⁸ If passed, it would be the most dramatic mandate minimum wage increase in history, since it includes no phase-in and no exemption based on employer size.

Under Initiative 1, workers employed by businesses that do not qualify for Tacoma's Small Business Annual Phased Tax Credit would receive the \$15 wage.

7 "Additional Information for Citizen's Initiative Measure No. 1 and City of Tacoma Initiative Measure No. 1B," prepared by the City of Tacoma, July 24, 2015, at www.co.pierce.wa.us/DocumentCenter/View/37558.

8 "An Initiative Ordinance of the City of Tacoma to Require the Payment of a City-Wide Minimum Wage," at www.tacoma-socialist-network.org/15nowtacoma/extras/Final-Initiative-Language-1.pdf.

Currently only businesses with annual gross revenue of less than \$300,000 qualify for the credit.⁹ These businesses would be exempt from paying the \$15 wage. Every employer with annual gross earnings of more than \$300,000 would be required to pay the higher wage. An employer's gross revenue is very different from net profit. Many small, Main Street businesses easily show \$300,000 in gross earnings, even when they barely break even or lose money after expenses.

Tacoma-Pierce County Chamber of Commerce CEO Tom Pierson notes the limited exemption would benefit very few micro business owners in the city:

*"That means almost every business that operates in Tacoma would have to pay its workers the minimum wage...You're talking about your mom and pop businesses, your restaurants, those are all the ones who this directly affects."*¹⁰

Also important to note is since the wage exemption is tied to the city's small business tax credit threshold, the amount of annual gross revenue that triggers a business's exemption to the minimum wage law would change should the city's tax credit threshold change. The current \$300,000 exemption trigger could be higher or lower in the future, with no input from voters.

Like Seattle's minimum wage law, employers located outside of Tacoma would be required to pay the \$15 wage to workers whose job duties include some work within the city limits, providing they clock a minimum of two hours per week there. However, unlike Seattle's law, workers who themselves do not work in Tacoma, but are employed by a business located in the city, would also be covered by the \$15 minimum wage law. This means a worker anywhere in Washington, or even in another state, who "reports to" or is "supervised from" an office in Tacoma would earn the city's \$15 wage.

This provision would create significant administrative and record-keeping problems for employers outside of Tacoma doing business and employing workers in multiple cities that include Tacoma, as well as businesses inside Tacoma who employ and direct workers located in other cities.

The wage would go into effect immediately upon enactment of the ordinance and would increase annually according to the rate of inflation using the CPI-W for urban wage earners and clerical workers for the Seattle-Tacoma-Bremerton statistical area. This means the cost of living in Seattle would be used to determine the annual wage increase in Tacoma. As Tacoma Mayor Marilyn Strickland has said: "I don't think you can compare the economies [of Seattle and Tacoma]."¹¹

City officials would receive extraordinary regulatory powers under Initiative 1. In addition to the authority to establish and implement the new law, city officials

9 City of Tacoma, B&O Tax Rates, at www.cityoftacoma.org/government/city_departments/finance/tax_and_license/b_o_tax_rates.

10 "\$15 minimum wage could be on Tacoma ballot in 2015," *The News Tribune*, by Kate Martin, December 8, 2014 at www.thenewstribune.com/news/local/politics-government/article25902049.html.

11 "Tacoma mayor proposes \$12 minimum wage increase," KING 5 News, July 14, 2015, at www.king5.com/story/news/local/tacoma/2015/07/14/tacoma-mayor-proposes-12-minimum-wage-increase/30164657/.

would be granted “police powers to enforce the minimum wages.”¹² The measure provides no funding for the city’s new administrative and investigative duties.

City officials would receive the power to restrict or prohibit industrial homework, or piecework, “as necessary or appropriate to prevent the circumvention or evasion of and to safeguard the minimum wage rate.” Current federal law regulates such work, whereby a worker produces goods for an employer from their home, and mandates such earners receive at least the minimum wage. Under the expansive powers of Initiative 1, however, city officials could completely prohibit this method of employing and paying workers.

Employers would be required to maintain meticulous and thorough payroll records for every employee for a minimum of ten years. Employers who fail to maintain such records would be guilty of a gross misdemeanor.

Anyone, not just an employee, could file a complaint against an employer, which would require the employer to provide information regarding work hours and rates of pay. Since the measure explicitly states there would be no punishment for filing complaints found to be without merit, these rules could be used by activists as “fishing expeditions” to harass or intimidate employers.

An agreement by the worker to earn less than the mandated minimum would be no defense against prosecution. The law specifically states an employee and employer may not enter into a voluntary, consensual agreement to work for less than the \$15 minimum wage. Any employer who accepts a worker’s voluntary agreement to work for less than the wages mandated by law would be in violation.

Penalties are severe. Employers found in violation would face criminal prosecution and jail time for first, second or third degree theft, depending on the amount of wages underpaid. Theft in the third degree is a gross misdemeanor, theft in the second degree is a class C felony, and in the first degree is a class B felony.¹³ In addition to criminal prosecution, employers would face civil penalties of \$100 per day per employee for the first violation, up to \$1,000 per day per employee for subsequent violations.

The new law would also create a Tacoma Minimum Wage Review Commission; five of the members would be chosen by lot from eligible voters, one member with “labor issues management experience” would be appointed by the mayor and one member with “labor issues resolution experience” would be chosen by the Pierce County Central Labor Council.¹⁴ This unelected Commission would have the power to require the city to increase staffing and funding to enforce the wage law. The Commission would also determine whether “the base minimum wage needs to be increased beyond scheduled cost-of-living increases.” The Commission’s recommendations would be sent to the City Council “for action,” setting the stage for future increases in the city’s minimum wage.

12 “An Initiative Ordinance of the City of Tacoma to Require the Payment of a City-Wide Minimum Wage,” at www.tacoma-socialist-network.org/15nowtacoma/extras/Final-Initiative-Language-1.pdf.

13 Revised Code of Washington, Sections 9A.56.030, 9A.56.040, 9A.56.050, at <http://apps.leg.wa.gov/RCW/default.aspx?cite=9a.56>.

14 Ibid.

2. City of Tacoma Initiative Measure 1B

Initiative 1B, the alternative measure offered by the Tacoma City Council and mayor, would fix a \$12 hourly wage for all employees aged sixteen and over who perform more than 80 hours of work per year in Tacoma beginning February 2016.¹⁵

There would be no exemptions based on employer size. Tacoma Mayor Marilyn Strickland explains: “If a policy is a good one you don’t have to make exemptions and carve-outs and tiers.”¹⁶

Initiative 1B would phase in the higher wage over three years.¹⁷ All workers would earn a minimum wage of not less than \$10.35 per hour beginning February 1, 2016; \$11.15 per hour beginning January 1, 2017; and \$12.00 per hour beginning January 1, 2018. The wage would be adjusted annually for inflation.

Employers would be required to maintain payroll records for three years. Employers found to be in violation would be responsible for the reimbursement of any wage underpayment plus interest of one percent per month. In addition, employers would face a civil penalty of \$250, which the City could waive or reduce if the underpayment is determined to be the result of “reasonable cause and not willful neglect” and is corrected within ten days.¹⁸ Conversely, a willful violation could result in civil penalties of at least \$250 or an amount equal to two times the total value of unpaid wages.

If proposed on its own, Initiative 1B would be controversial. Placed next to Initiative 1, however, it looks mild by comparison.

What Business Owners Say

Business owners say the immediate implementation of a \$15 minimum wage would be devastating for Tacoma employers of all sizes. Very few businesses can afford labor costs that would increase by nearly 60 percent overnight as proposed in Initiative 1. It would also have a severe impact on jobs.

The president of an assisted living facility in the city said he would be forced to close his business, relocate its 250 residents and layoff 120 workers. He explained his business is already paying the costs of other government mandates, such as the Affordable Care Act and the city’s new paid sick leave law:

“If the minimum wage were to go to \$15 an hour on Jan. 1, 2016, it would cost us an additional \$630,000 per year. That’s over \$50,000 a month. We could not

15 “Resolution No. 39237,” City of Tacoma, at www.co.pierce.wa.us/DocumentCenter/View/37530.

16 “Tacoma mayor proposed minimum wage increase heads to November ballot,” KING 5 News, July 14, 2015, at www.king5.com/story/news/local/tacoma/2015/07/14/tacoma-mayor-proposes-12-minimum-wage-increase/30164657/.

17 “Resolution No. 39237,” City of Tacoma, at www.co.pierce.wa.us/DocumentCenter/View/37530.

18 Ibid.

exist on that basis. The city would lose a business that has been successful for 20 years.”¹⁹

One restaurant owner said that while he pays his full-time workers \$30 per hour, some who work part time earn the minimum wage. He says one of his businesses would simply not be worth the effort if he was forced to pay every worker a \$15 wage, and the other may not survive a \$15 minimum wage:

“I’m happy to live in Tacoma and I’m happy to have a couple businesses here. One does quite well and the other doesn’t, it doesn’t make any money at all actually. I’m at a \$400,000 loss this year. Going to \$15 an hour Jan. 1 would easily put that so far in the water that it wouldn’t be worth doing...I think both of my businesses would fail at that rate.”²⁰

Another small business owner in the city put it more succinctly:

“(If you pass \$15 per hour minimum wage), you won’t have a \$15 job, you’ll have no job.”²¹

All of these employers said they would prefer the \$12 wage phased-in over three years proposed by Initiative 1B. Clearly that would be less impactful to a business than a \$15 wage implemented overnight.

While the phase-in of the \$12 minimum wage of Initiative 1B would be less dramatic than Initiative 1’s immediate imposition of \$15, increasing the wage to \$12 by 2018 represents a 27 percent increase in just three years. That is still a significant increase in labor costs and would have an impact on employment opportunities.

Conclusion

Extensive economic research shows that sharply increasing the minimum wage results in fewer job opportunities for entry-level workers. These starter jobs provide such workers, usually the young, unskilled and less-educated, with the skills and work experience they need to command higher wages in the future. Under Initiatives 1 and 1B, no one would be allowed to work for less than the mandated amount of money, even if he or she wanted to. Any workers who could not command at least \$15 an hour for their time and skills could not work legally in Tacoma.

A recent National Bureau of Economic Research study found that fewer job opportunities for such workers lead not just to lower incomes, but causes a reduction in their economic mobility over time.²² As minimum wage hikes reduce entry-level

19 “\$12 minimum wage headed to ballot,” *Business Examiner*, by Zachariah Bryan, July 2015

20 Ibid.

21 Ibid.

22 “Minimum Wage and the Great Recession: Evidence of Effects on the Employment and Income Trajectories of Low-Skilled Workers,” National Bureau of Economic Research, by Jeffrey Clemens and Michael Wither, University of California at San Diego, November 4, 2014 at <http://econweb.ucsd.edu/~mwither/pdfs/Effects%20of%20Min%20Wage%20on%20Wages%20Employment%20and%20Earnings.pdf>.

jobs for low-skilled workers, the future earnings of these workers are stunted, since those workers cannot gain the work experience and skills they needed to move up the earnings ladder.

This reinforces the fact that entry-level, low-wage jobs are a steppingstone to earning more money later in life. As inexperienced or low-skilled workers gain skills and prove their productivity with time on the job, employers reward them accordingly—two-thirds of minimum wage earners receive a raise within the first year.²³

Tacoma workers already enjoy one of the nation's highest "real" minimum wages. According to a recent report, once the city's cost of living has been considered, the purchasing power of the minimum wage in Tacoma is greater than all but nine of the largest cities in the nation.²⁴

A higher wage for all workers may sound generous, but it always comes with a cost. Some businesses may close down and some may cut employee benefits and hours to offset the higher labor costs. Some existing businesses may relocate to bordering cities, while potential businesses may decide to never open their doors in Tacoma.

Tacoma could experience a decrease in tax revenue, as businesses close or relocate to avoid the ordinance. The increase in the cost of doing business in Tacoma could lead to a reduction in economic development and a drop in the value of commercial property, resulting in yet another reduction in revenue for the city.

The new obligations of the City of Tacoma in monitoring, investigating and enforcing the new law could strain limited resources. The city, which has already experienced budget difficulties and corresponding reductions in workforce in recent years, could find itself overextended.²⁵

Since no funding source is identified in Initiative 1 or Initiative 1B, the potential reduction in revenue combined with the increase in services could lead to an increase in current taxes or to a new tax imposed on Tacoma residents.

After losing a series of high-profile employers over the years, Tacoma city officials have worked hard to make the city friendly to business, especially small businesses. The city has reduced its local business-and-occupation tax and cut the regulatory red tape to make it easier to create jobs. The city also launched the

23 "Key Facts About the Minimum Wage," Washington Policy Center, by Erin Shannon, at <http://washingtonpolicy.org/sites/default/files/Key%20Facts%20About%20the%20Minimum%20WageUPDATED.pdf>.

24 "Kennewick, Yakima highest 'real' minimum wage in nation," KEPR TV, August 12, 2015 at www.keprtv.com/news/local/Kennewick-Yakima-highest-real-minimum-wage-in-nation-321571591.html.

25 "Tacoma: City Manager T.C. Broadnax warns city employees to expect 'dramatic' budget cuts; sources say 200 layoffs planned," *The News Tribune*, Political Buzz by Lewis Kamb, September 13, 2012 at <http://blog.thenewstribune.com/politics/2012/09/13/tacoma-city-manager-t-c-broadnax-warns-city-employees-to-expect-dramatic-budget-cuts-sources-say-200-layoffs-planned/>.

“Shift Happens” campaign, reflecting the city’s shift in focus from recruiting large, corporate employers to encouraging and cultivating local small businesses.²⁶

Forcing employers in Tacoma to pay a higher minimum wage would not help nurture small businesses. While it would increase the wages of workers who remain employed, the wage mandate would fall hardest on young, unskilled and low-income workers who would suffer from reduced job opportunities that harm the economic and business climate of the City of Tacoma.

²⁶ “Tacoma works to recover from economic blows,” *The Seattle Times*, by Sanjay Bhatt, January 13, 2012, at www.seattletimes.com/business/tacoma-works-to-recover-from-economic-blows/.

Published by Washington Policy Center

Washington Policy Center is an independent research organization in Washington state. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body.

Chairman	Craig Williamson
President	Daniel Mead Smith
Vice President for Research	Paul Guppy
Communications Director	Lisa Shin

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

© Washington Policy Center, 2015

About the Author



Erin Shannon is director of WPC's Center for Small Business. 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.