

**Subject:** Please direct to committee members sitting on minimum wage hearing

TO: Members of the Senate Workforce Committee

Members of the House Business and Labor Committee

From: Lynda McHenry, Owner, Eats & Treats Café, 1644 Main Street, Philomath, OR 97370

To the Committee:

**I urge you to vote NO on SB 327, SB 597, SB 610, SB 682: Proposed legislation to increase Oregon's Minimum Wage.**

What you are considering will be devastating to the small businesses of Oregon and ultimately the workers of Oregon. The steps necessary for businesses to survive this increase in cost of doing business will result in lost jobs, lost training opportunities for those new to the workforce, increased prices to the consumer, reduction in buying local and reduction in private support of local charities, community and school events.

### **Background and Support for Position Information**

My husband and I opened our business 3 years ago.

Over these past three years we have invested our entire savings and retirement into the building of this restaurant, which is a dedicated gluten free eatery that provides great food and employment opportunities for everyone, but especially for those with a sensitivity to gluten.

As with all new businesses, our business model was prepared to have no rate of return for the first 3-5 years due to reinvestment of capital required to build the business.

Between the two of us, we work 120 hours a week on site, and do not draw one penny from the business.

In addition, I work full time during weekdays as a travel agent to support us.

Through our efforts of putting at risk our entire savings and retirement, as well as working 120 hours a week for no pay AND my working an additional 40 hours a week to support ourselves, we have created a business in Philomath that does the following:

- We employ the equivalent of 14-15 FTE's which is comprised of actually 27 full and part time employees (9 from Philomath, 16 from the neighboring community of Corvallis and 2 from Albany, the next town over). 21 of our employees are students. 20 of our employees are female, 7 male. And though these numbers are of the CURRENTLY EMPLOYED personnel, because we are in the restaurant business and employ a younger, more mobile age group with higher turnover, the TOTAL number of people we provided jobs for in 2013 was 55 and in 2014 was 66. In Philomath we are considered in the top 20% of job providers in the town.
- The majority of our employees are first time workers with no prior experience. While they are getting paid to do a job, they are also being paid while they learn valuable skills in the workplace (Our costs in training a new employee ranges from \$400-\$2000 per employee, depending on the position).
- 11 of our employees are servers. They are currently paid the minimum wage of 9.25 per hour PLUS tips that average between another \$10-\$15 an hour. That takes their average hourly earnings from \$9.25 per hour to anywhere from \$19.25 to \$24.25 per hour. I know the exact amount because I require my servers to record ALL tips daily on a log sheet, I report them every pay period, I deduct all payroll taxes on their paychecks and I pay ALL the additional employer payroll taxes on them.
- Compensation by tips is a huge portion of wages for those in the hospitality industry. Because of this large earning capacity of the average server, most states have a TIPPED employee minimum wage that is less than the federal minimum wage. Oregon is NOT one of those states. Rather, Oregon ALREADY is one of the highest required pay scales in the nation, as it mandates that employers of tipped employees pay not only federal minimum wage,

but also full state minimum wage. (Note, Oregon already has the 2<sup>nd</sup> highest state minimum wage in the nation)

- My cooks/bakers make an hourly wage of anywhere from 11-\$13 an hour, my manager, \$14 an hour. At these rates, our payroll is already running 39% of our gross sales. (AGAIN, I remind you, neither my husband nor myself draw a single penny out of this business at this time and combined, work 100-120 hours a week additional. That 39% does NOT include our work hours)

An analysis of the proposed wage increase will have the following effect on our business.

- Current wages run 39% of our total gross sales
- At \$10.25 per hour, it will run 45% of total gross sales
- At \$13.50 per hour, it will run 54% of total gross sales
- At \$15 per hour, it will run 59% of total gross sales

HOWEVER, there is further residual increased business costs from the wage increase. Worker's comp premiums are based upon payroll totals. We currently are at a 1.46% mod rate, paying \$383 a month, or \$4596 per year. Because this is a payroll calculator, added to the increases above, will be our worker's comp modifier will increase:

At 10.25 an hour - an additional \$49 a month – increased to \$5184 per year – an 12 % increase

At \$13.50 an hour – an additional 141 a month – increased to \$6288 per year - 36% increase

At \$15 an hour - an additional 191 per month – increase to \$6888 per year. – 49%

Even more significant will be the increase in our basic food costs. Because this will greatly affect the LOCAL agricultural business and their costs of doing business, those costs are going to have to be passed along. I am assuming our basic food costs will also increase by the same modifier.

Our total base food costs are currently running at 33% of total sales. Our best guess is that food costs for locally grown foods will increase about 20%.

We do everything possible to utilize local suppliers for our food sources, but this increase in costs will drive us to other areas for food sources. Currently the disparity between food purchased from local growers and that from Mexico is offset by freight costs, but with the anticipated labor increase to Oregon farmers, their prices are going to have to increase, be passed along to us and therefore we may be driven to purchase our foods from not only other states, but even to another country to remain solvent.

We have stayed awake at night to try and figure out how to save our business, should this increase occur. We are in a small, blue collar town. Our prices are already at the upper end of the price range and our market will not bear much more of an increase. So though, we may adjust pricing slightly, we do not have the option of increasing our prices to match the costs demands by this proposed legislation.

For survival, we will be forced to find alternatives to save our businesses. To offset a 50% increase in payroll and residual expenses, we will:

- Be forced to look towards computers and automation to replace human employees. Table top I-pads are starting to replace servers in chain eateries. That trend will only continue.
- No longer be able to purchase the majority of food from local vendors, as the cost will be prohibitive. We will be forced to move that purchasing to out of state vendors and providers, where it is less expensive to do business and therefore cost of goods and services are less.
- Have to greatly reduce community donations and sponsorships.
- Have to increase prices

Because we are a local business that does not have the ability to move elsewhere, we either survive or close. On a more global scale, OTHER businesses that have the ability to sell or produce their goods/services have other alternatives. They WILL relocate to other states (One

local food source who employs 800 people, has made no secret that IF this increase goes into effect, they will relocate their business to Idaho.)

And as for future economic growth within the state, this will be a job killer. Businesses who were considering moving into Oregon, are going to bypass our state altogether because the cost of doing business is too prohibitive.

These alternatives will hurt Oregon and Oregon workers.

I had the opportunity April 13<sup>th</sup> to speak before the committee hearing. At that hearing, I heard proponents of the bills state cases of minimum wage earners working sometimes 2 to 3 jobs just to make ends meet and still, at the end of the month, be forced with hard decisions of whether to pay the utilities or some other bill.

**LET ME ASSURE YOU, IT IS NO DIFFERENT FOR THE SMALL BUSINESS OWNER.**

Every two weeks I HAVE to meet payroll and then, with what is left over, figure out how to pay worker's comp, employer taxes, property taxes, business taxes, mortgage, suppliers, utilities, and the list goes on and on and on. And to meet these financial demands, as I said before, requires my husband and I to work at the Café 120 hours between the two of us for NO pay, plus I work another full time job to support ourselves. IN ADDITION, we have the responsibility to not only pay our bills BUT we also provide jobs that allow others to pay their bills.

The difference between an employee and the small business owner is that the employee can go get another job. The small business owner's option is to close shop and lose every dime invested. Jobs are lost, training for future workforce is lost, community support is lost, opportunities for shopping local are lost.

The theory to increase the minimum wage is well-intended, but the residual effects will be catastrophic. Just because a mandate from the government says the wage must be paid, does not mean a business can afford to do it. There is only so much cost cutting, price increasing, automation one can do to meet the demands of a 50% payroll increase and all other costs that go with it.

Instead of riding the heels of Seattle and their experiment, why not step back and wait a few years to see what the fallout of such drastic measures produces. You have a working model in place in Seattle. It will take a minimum of three years to determine if the theory works or doesn't.

Prudent leadership that is considering such drastic measures should AT LEAST let the action stand the test of time in another state instead of just jumping on the bandwagon and doing it because it got passed somewhere else.

I understand studies have been done both pro and con, but we all know studies can be made to bias whatever outcome desired. A few articles among the many for your review:

<https://shiftwa.org/first-casualty-of-seattles-15-minimum-wage/>

<http://www.westernjournalism.com/15-minimum-wage-looms-seattle-restaurants-close-doors/>

<http://viral.buzz/seattles-15-minimum-wage-crash-for-many-their-new-wage-is-zero/>

PLEASE UNDERSTAND, that if you do this, you will not be able to UN-do it. Please vote NO on the increase of minimum wage.

Respectfully submitted,

Lynda McHenry