

BAY AREA BIZTALK

What the new minimum wage law could cost your business

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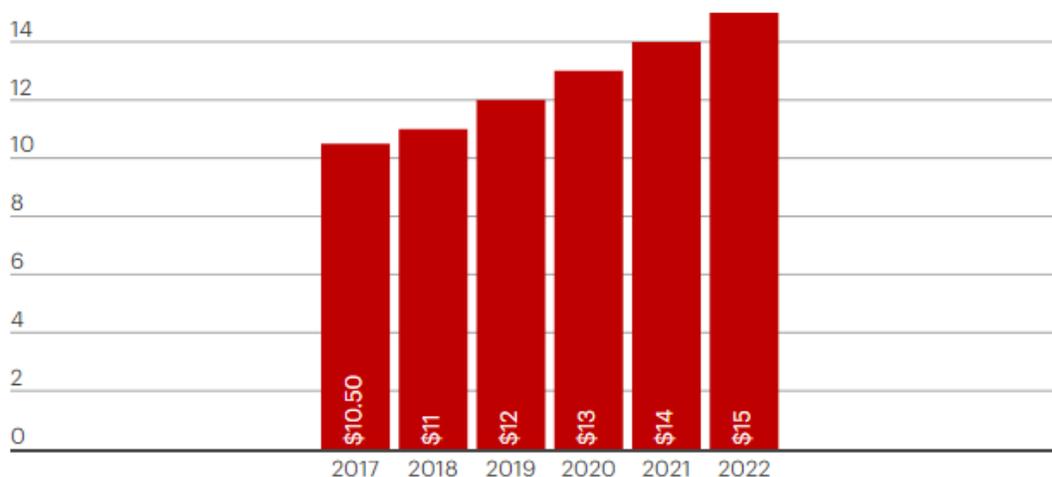
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Riley McDermid
Digital Producer
San Francisco
Business Times



THE NEW MINIMUM WAGE ROLL-OUT

For employers of 26 or more employees the schedule is as shown below, unless the governor exercises his/her jurisdiction to slow down the increases due to a poor economy. For employers that have 25 employees or less – phase in these increases one year later.



Raising the minimum wage to \$15, the highest level in the nation, will cost California taxpayers at least \$3.6 billion a year, a new legislative [analysis found earlier this week](#)— and that's only new costs associated with government workers. But what about private businesses, which are now wondering what higher wages could mean for their business costs, personnel plans and long-term growth?



California business owners will need to do some prep work to get ready for the changes.

[Mark Spring](#), a partner at labor and employment law firm [Carothers DiSante & Freudenberg](#) LLP, told the Business Times on Friday that San Francisco business owners will be more prepared than most of the state to handle this increase, because the city has already slated wages to climb to \$15 an hour by July

2018, more than three years before the state mandates that amount.

But others will need to do some prep work to get ready for the changes, which will come in a stepped schedule that increases over time. ***See our infographic for when those changes will take place.***

"Business owners outside the City of San Francisco, particularly those business located where there is currently no local minimum wage ordinance, will have to prepare for this increase," Spring told the Business Times. "In these cases, most employers look to see how they can cut hours back, cut jobs, or eliminate management positions. In addition, certain employers will look to see how they can use technology and other efficiencies to eliminate work hours."

Businesses also shouldn't be leery of passing on increased costs to consumers, [Jason Brown](#), an associate at law firm [Fisher & Phillips](#), LLP in San Francisco, told the Business Times. Consumers who have supported a bill in theory may be willing to shoulder a larger financial part of the burden once they are enacted, he said.

"In many industries, an increase in wages leads to an increase in prices to consumers. It's a cost of business, and while compliance is mandatory, low prices are not," Brown said. "But consumers are also the ones earning the higher wages, and generally support these bills, so businesses should be open to passing the cost on to the consumer."

As for surprises in the bill, both Spring and Brown said that California employers need to be extra careful knowing their way around the law's exemptions.

Spring said that from a labor and employment law point of view, he has been most surprised that key overtime exemptions such as administrative, professional and executive all require that an employee be paid a salary of twice the state minimum wage in order to be exempt from overtime.

"Currently that is \$800 a week. When the state minimum wage goes up to \$15 an hour, all employers, including those in S.F. will have to pay their exempt employees a salary of \$1,200 a week in order to avoid paying them overtime," Spring told the Business Times. "This amounts to a floor of \$62,400 a year. This is a material change, [because the] current floor is \$41,600."

All of those costs will fall on business owners, with legal ramifications that could include class-action lawsuits. Spring said that failing to comply with California wage and hour laws "usually leads to these types of claims," which are more expensive to defend than single-employee claims.

"In addition, wage and hour claims are almost never covered by insurance," Spring said. Brown agreed with that, and said any business looking for loopholes in the law should be prepared for the legal costs that come with skirting settled law.

Still, despite the costs that will come with the new policy, some business owners said they are proud to do business in a state at the forefront of the living-wage movement – and were hopeful the change will force regulators to make smarter, faster changes to how businesses are taxed.

[Eric Edelson](#), CEO of [Fireclay Tile](#), told the Business Times Friday he isn't worried about the wage hike, calling it "the right thing" to do. Fireclay Tile has 88 employees, 24 in San Francisco, the rest in Aromas in the South Bay. About 70 percent of his workforce is paid hourly.

"We are aiming to get to this as a starting wage by 2018 internally," Edelson told the Business Times. Edleson said he and his management team remain hopeful that beyond just the mandate for \$15 per hour, that state and federal agencies will "re-look" at payroll taxes, unemployment, healthcare, insurance and other areas to find offsets.

"[That way], while businesses raise their per hour wage, the take from the government won't change dramatically so that some of these cost savings help support the \$15 or more per hour wage," Edelson said. "This is essential to happen."