



**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

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LATE TESTIMONY

February 4, 2011

To: The Honorable Clayton Hee, Chair
and Members of the Senate Committee on Judiciary and Labor

Date: Tuesday, February 8, 2011
Time: 10:00 a.m.
Place: Conference Room 016, State Capitol

From: Dwight Y. Takamine, Director
Department of Labor and Industrial Relations

Re: Testimony in Strong Support of

S.B. No. 1037 Relating to Minimum Hourly Wage

I. OVERVIEW OF PROPOSED LEGISLATION

S.B. 1037 amends the Wage and Hour Law, Chapter 387, Hawaii Revised Statutes ("HRS"), by increasing the minimum wage to \$8.50 as of July 1, 2011 and as of January 1, 2013 requires the minimum wage to be adjusted according to the consumer price index for urban wage earners and clerical workers (CPI-W).

This takes effect on July 1, 2011.

II. CURRENT LAW

The minimum wage is \$7.25 and has been since January 1, 2007. Federal minimum wage has been \$7.25 since July 24, 2009. There are no planned increases for either.

III. SENATE BILL

The Department makes the following comments on S.B. 1037

1. The percentage of the workforce earning exactly the current minimum wage for the first six months of 2010 was 1.7% of the workforce (average 10,556 – 635,841). Including tipped workers earning between \$7 and \$7.25 was 2.4% of the workforce (15,359). Both results were derived by using the Current Population Survey for the first six months of 2010.*
2. The Department notes that currently 10 other states tie their minimum wage to the Consumer Price Index (see attached). Below is a table generated using Bureau of Labor Statistics data by DLIR's Research & Statistics Division, which demonstrates the changes in the minimum wage if this measure was adopted as well as the erosion of buying power by the minimum wage earners over time if no changes were made. For example, if no changes in the minimum wage were made by 2014 minimum wage earners would see an erosion of 21% of their buying power from 2010.
3. A change in minimum wage law takes some planning which will be difficult if the effective date is July 1, 2011. We suggest an effective date of January 1, 2012.

* Dr. Lawrence Boyd, UH West Oahu 2/7/2011

Analysis using the table below:

- Assuming the CPI-W has an annual increase of 2.9% from 2011 to 2014, the minimum wage will be \$8.75 in 2013 and \$9.00 in 2014.
- The proposed minimum wage would provide a purchasing power greater than \$7.25 inflated by CPI-W annual percent increases for the years 2011 to 2014.

SB1037 \$8.50 in 2011 and 2012 Linked to CPI-W

Year	Honolulu CPI-W *	CPI-W Percent Increase	Hawai'i Minimum Wage	\$7.25 MW Inflated by CPI-W	Current/Proposed MW minus Inflated \$7.25
2006	205.6	5.7%	\$6.75		
2007	215.681	4.9%	\$7.25		
2008	226.738	5.1%	\$7.25	\$7.62	-\$0.37
2009	226.462	-0.1%	\$7.25	\$7.61	-\$0.36
2010	233.089	2.9%	\$7.25	\$7.83	-\$0.58
2011		2.9%	\$8.50 **	\$8.06	\$0.44
2012		2.9%	\$8.50 **	\$8.29	\$0.21
2013		2.9%	\$8.75 **	\$8.53	\$0.22
2014		2.9%	\$9.00 **	\$8.78	\$0.22

* Honolulu CPI-W, Not Seasonally Adjusted, First Half (1982-84 = 100). Figures from BLS extracted on February 1, 2011.

** Proposed minimum wage.

Consumer Price Index

The CPI is a means for adjusting income payments. Over 2 million workers are covered by collective bargaining agreements that tie wages to the CPI. The index affects the income of almost 80 million people because of statutory action: 47.8 million Social Security beneficiaries, about 4.1 million military and Federal Civil Service retirees and survivors, and about 22.4 million food stamp recipients. Changes in the CPI also affect the cost of lunches for the 26.7 million children who eat lunch at school. Some private firms and individuals use the CPI to keep rents, royalties, alimony payments and child support payments in line with changing prices. Since 1985, the CPI has been used to adjust the Federal income tax structure to prevent inflation-induced increases in taxes.

The First Half Honolulu CPI is published on or about August 15th. of each year.

The CPI measures the average change in the prices paid for a market basket of goods and services. These items are purchased for consumption by the two groups covered by the index: All Urban Consumers (CPI-U) and Urban Wage Earners and Clerical Workers, (CPI-W).

The CPI-U:

1. Represents about 87 percent of the total U.S. population and is based on the expenditures of all families living in urban areas.
2. Includes expenditures by urban wage earners and clerical workers, professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, retirees and others not in the labor force.
3. Because the population coverage is more comprehensive, it is used in most other escalation agreements.

The CPI-W:

1. Is a subset of the CPI-U and is based on the expenditures of families living in urban areas who meet additional requirements related to employment: more than one-half of the family's income has to be earned from clerical or hourly-wage occupations. The CPI-W represents about 32 percent of the total U.S. population.
2. Includes only expenditures by those in hourly wage earning or clerical jobs.
3. Used for escalation primarily in blue-collar cost-of-living adjustments (COLA's).

States that Adjust Their Minimum Wage Using the CPI

Ten States link their minimum wage to the Consumer Price index.

1. Arizona
2. Colorado
3. Florida
4. Missouri
5. Montana
6. Nevada
7. Ohio
8. Oregon
9. Vermont
10. Washington

Seven states use the CPI-U (all urban consumers).

1. Arizona
2. Colorado
3. Florida
4. Montana
5. Nevada
6. Oregon
7. Vermont

Three states use the CPI-W (urban wage earners and clerical workers).

1. Missouri
2. Ohio
3. Washington

State	Minimum Wage 2011	Increased by
Arizona (AZ) http://www.azleg.gov/FormatDocument.asp?inDoc=/ars/23/00363.htm&Title=23&DocType=ARS	\$7.35	23-363. Minimum wage The minimum wage shall be increased on January 1, 2008 and on January 1 of successive years by the increase in the cost of living. The increase in the cost of living shall be measured by the percentage increase as of August of the immediately preceding year over the level as of August of the previous year of the consumer price index (all urban consumers, U.S. city average for all items) or its successor index as published by the U.S. department of labor or its successor agency, with the amount of the minimum wage increase rounded to the nearest multiple of five cents.
Colorado (CO) http://www.colorado.gov/cs/Satellite/CDLE-LaborLaws/CDLE/1251566749488	\$7.36	In accordance with the Colorado Constitution, the Colorado minimum wage is adjusted annually for inflation as measured by the Consumer Price Index used for Colorado. The inflation adjustment is based on the Consumer Price Index for All Urban Consumers (CPI-U), All Items, for the Denver-Boulder-Greeley combined metropolitan statistical area as published by the United States Bureau of Labor Statistics (BLS).
Florida (FL) http://www.ehow.com/list_7415565_wage-hours-laws-florida.html	\$7.25	Florida state law requires the state's Agency for Workforce Innovation to determine the state's minimum wage rate each year. The minimum wage for the approaching year must be determined by Oct. 15 of the preceding year. The Agency for Workforce Innovation calculates the state's minimum wage based on the federal Consumer Price Index for the South Region of the United States. The formula used to calculate the minimum wage could result in a figure higher or lower than the federal standard. State law requires the Agency for Workforce Innovation to use the higher of the two figures. For 2011, the minimum wage was set at the federal standard of \$7.25 per hour.
Missouri (MO) http://www.moga.mo.gov/statutes/C200-299/2900000502.HTM	\$7.25	The minimum wage shall be increased or decreased on January 1, 2008, and on January 1 of successive years, by the increase or decrease in the cost of living. On September 30, 2007, and on each September 30 of each successive year, the director shall measure the increase or decrease in the cost of living by the percentage increase or decrease as of the preceding July over the level as of July of the immediately preceding year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) or successor index as published by the U.S. Department of Labor or its successor agency, with the amount of the minimum wage increase or decrease rounded to the nearest five cents.
Montana (MT) http://dli.mt.gov/media/releases/10012010minWage.pdf	\$7.35	The increase in the minimum wage is based upon any increase in the U.S. City Average Consumer Price Index for All Urban Consumers for All Items (CPI) from August of the preceding year to August of the year in which the calculation is made. This amount is to be rounded to the nearest five cents. (Minimum wage is subject to a cost of living adjustment done by September 30 of each year and effective on January 1 of the following year.)
Nevada (NV) http://www.leg.state.nv.us/Const/NVConst.html#Art15Sec16	\$8.25 * \$7.25 **	THE CONSTITUTION OF THE STATE OF NEVADA Article 15 Sec. 16. Payment of minimum compensation to employees These rates of wages shall be adjusted by the amount of increases in the federal minimum wage over \$5.15 per hour, or, if greater, by the cumulative increase in the cost of living. The cost of living increase shall be measured by the percentage increase as of December 31 in any year over the level as of December 31, 2004 of the Consumer Price Index (All Urban Consumers, U.S.

		City Average) as published by the Bureau of Labor Statistics, U.S. Department of Labor or the successor index or federal agency. No CPI adjustment for any one-year period may be greater than 3%. The Governor or the State agency designated by the Governor shall publish a bulletin by April 1 of each year announcing the adjusted rates, which shall take effect the following July 1.
Ohio (OH) http://www.legislature.state.oh.us/constitution.cfm?Part=2&Section=34a	\$7.40	Ohio Constitution - § 2.34a Minimum Wage Except as provided in this section, every employer shall pay their employees a wage rate of not less than six dollars and eighty-five cents per hour beginning January 1, 2007. On the thirtieth day of each September, beginning in 2007, this state minimum wage rate shall be increased effective the first day of the following January by the rate of inflation for the twelve month period prior to that September according to the consumer price index or its successor index for all urban wage earners and clerical workers for all items as calculated by the federal government rounded to the nearest five cents.
Oregon (OR)	\$8.50	Beginning January 1, 2004, and annually thereafter, the rate will be adjusted for inflation by a calculation using the U.S. City Average Consumer Price Index for All Urban Consumers for All Items. The wage amount established will be rounded to the nearest five cents.
Vermont (VT) http://labor.vermont.gov/Portals/0/Wage%20Hour/2009%20Final_Adopted_Minimum_Wage_Rule.pdf	\$8.15	STATE OF VERMONT DEPARTMENT OF LABOR VERMONT MINIMUM WAGE RULES *Beginning January 1, 2007, and on each subsequent January 1, the minimum wage rate shall be increased by five percent or the percentage increase of the Consumer Price Index, CPI-U U.S., city average, not seasonally adjusted, or successor index, as calculated by the U.S. Department of Labor or successor agency for the 12 months preceding the previous September 1, whichever is smaller. The minimum wage shall be rounded off to the nearest \$0.01 . For purposes of service and tipped employees, effective January 1, 2008 and on each January 1 thereafter, the basic wage rate for "Tipped or Service" Employees shall be increased at the same percentage rate as the minimum wage rate. NOTE: If the minimum wage rate established by the U.S. Government is greater than the rate established for Vermont for any year, the Vermont minimum wage rate shall be the rate established by the U.S. Government.
Washington (WA) http://apps.leg.wa.gov/rcw/default.aspx?cite=49.46.020	\$8.67	On September 30, 2000, and on each following September 30th, the department of labor and industries shall calculate an adjusted minimum wage rate to maintain employee purchasing power by increasing the current year's minimum wage rate by the rate of inflation. The adjusted minimum wage rate shall be calculated to the nearest cent using the consumer price index for urban wage earners and clerical workers, CPI-W, or a successor index, for the twelve months prior to each September 1st as calculated by the United States department of labor. Each adjusted minimum wage rate calculated under this subsection (4)(b) takes effect on the following January 1st.

Nevada:

*with no health ins. benefits provided by employer

**with health ins. benefits provided by employer and received by employee

THE SENATE
Committee on Judiciary and Labor
Senator Clayton Hee, Chair
Senator Maile S.L. Shimabukuro, Vice Chair

State Capitol, Conference Room 016
Tuesday, February 8, 2011; 10:00 a.m.

**STATEMENT OF THE ILWU LOCAL 142 ON S.B. 1037
RELATING TO MINIMUM HOURLY WAGE**

The ILWU Local 142 supports S.B. 1037, which increases the minimum hourly wage to \$8.50 per hour beginning July 1, 2011 and ending December 31, 2012, and adjusts the minimum hourly wage thereafter in accordance with the consumer price index.

Hawaii's minimum wage is currently at \$7.25, the same as the federal minimum wage. Our state's minimum wage was last increased in January 1, 2007. Since then, of course, Hawaii, the nation and the world have gone through considerable economic upheaval, leaving some to believe that increasing the minimum wage will only mean further hardship on businesses, especially small ones. Yet several states have increased the minimum wage in the past four years, with most of those increases being automatically tied to inflation. The highest minimum wage in the country is Washington state's \$8.67.

Some increases have been nominal, given the slow growth of the economy. Yet all have recognized the need to increase the minimum wage in line with the increase in inflation. If workers earning the minimum wage receive no increase each year, they will fall further and further behind.

Of course, some will argue that few actually have to subsist on minimum wages. In many cases, minimum wage workers rely on tips to supplement their wages. But these tips are paid not by the employer but by the customer and should not be used to deflect the need to increase the minimum..

The minimum wage is considered a wage floor. Most employers, in fact, try to pay slightly more than the minimum to recruit and retain employees. But if the wage floor does not increase for years at a time, low wage workers will remain underpaid and need to rely on government programs like Medicaid and food stamps or private programs like the Food Bank to supplement their families' income.

Rather than maintain a population of working poor, we fully support S.B. 1037's proposal that the wage floor be increased to keep up with inflation. The cost of living in Hawaii is hugely expensive. Rental housing is at least \$1,000 a month, unless one is willing to live in a 1940s-era firetrap rooming house with more than 20 other people or live at a park or on a sidewalk. We are blessed with good weather so heating bills are not a concern, but the cost of electricity is high nevertheless. Food is a major expense, especially for families. Public school children may be eligible for free or subsidized lunches, but it is a shame that a working parent cannot afford to provide the cost of lunch for his children.

The ILWU urges passage of S.B. 1037. Thank you for this measure and for allowing us to testify.

LATE TESTIMONY



Testimony to the Senate Committee on Judiciary and Labor

Tuesday, February 8, 2011

10:00 a.m.

State Capitol - Conference Room 016

RE: SENATE BILL NO. 1037 RELATING TO MINIMUM HOURLY WAGE

Chair Hee, Vice Chair Shimabukuro, and members of the committee:

My name is Jim Tollefson and I am the President and CEO of The Chamber of Commerce of Hawaii ("The Chamber"). I am here to state The Chamber's concern regarding Senate Bill No. 1037 relating to Minimum Hourly Wage.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The intent of this bill is to increase the wage for the lowest paying jobs to ensure that the minimum wage keeps up with inflation. The bill intends to have the minimum wage raised in proportion to the rate of inflation Hawaii experienced over the past few years. The concept is to ensure that workers earning a minimum wage can make ends meet and we truly understand and emphasize especially given this current economic situation.

Economists have argued, however, that raising the minimum wage will not improve the quality of life for minimum wage earners and will actually hurt those who are seeking entry level jobs. Also, economists uniformly agree that most employees earn far more than the minimum wage; and that a minimum wage increase actually causes a reduction in the number of entry level jobs because of the increased cost to employers to maintain such jobs.

The real cost to business includes all of the other employee benefits and taxes that are tied to the employees wages. Those include, social security tax, unemployment tax and workers compensation premiums, which increase the cost of employing workers, which reduces the number of available jobs. Increasing the minimum wage will require employers to pay additional costs after adding the additional taxes of FICA, Medicare and FUTA.

The Chamber opposes an increase in the minimum wage because there is no evidence to suggest that an increase is necessary. An increase in the minimum wage will cause inflation and a reduction in the number of available entry level jobs. That is an economic reality. Unless the legislature can properly analyze the impact of the proposed increases, the consequence could be far more damaging and will not have the beneficial impact the bill intends.

The damaging effect of a minimum wage increase will be an increase in the rate of inflation. The cost of goods produced and sold will go up because of increased labor cost. The segment of our population that will be most greatly impacted will be those very poor people this bill claims it seeks to help. Goods and services will cost more so, while the minimum wage earners will earn more, the actual purchasing power of that income may stay the same. Another large sector of our population it will hurt will be our seniors who are on a fixed income. Their income will not increase, and any inflation caused by an increase in the minimum wage will shrink the value of their fixed income.

In addition, the economy will be better served if the minimum wage is kept at its current level because if employers can afford to hire workers at the minimum wage, more employees will be able to find employment. Once employed, the employee can improve their economic position by performing well on the job and receiving raises. If fewer jobs are available, the population this bill seeks to assist will find it harder to secure an entry level job.

The enactment of a minimum wage increase at this time will undermine efforts made to turn Hawaii's economy around. Hawaii's business community is at a critical point -- where any additional mandates could mean the difference between continued existence, or bankruptcy. As evidenced by recent media accounts, many local establishments, some of which have faithfully served consumers for generations, are going out of business.

While we understand the intent of the bill, the Chamber urges your Committee to hold this bill.

Thank you for the opportunity to testify.