

Say's reading materials for Group B

July 24, 2019

The Wall Street Journal

America's Highest Minimum Wage Sparks Fight in Small California City

Restaurants in Emeryville say they can't keep raising prices, but workers say \$16.30 an hour is barely enough in Bay Area

By [Jim Carlton](#)

July 24, 2019 5:30 am ET

EMERYVILLE, Calif.—The economy is booming in the Bay Area, but at Patatas Neighborhood Kitchen, located in this small city just north of Oakland, owner Marcos Quezada recently eliminated the dinner shift and laid off six of his 10 workers.

He struggled with the decision but felt he had no choice after Emeryville increased its hourly minimum wage on July 1 from \$15 to \$16.30, the highest in the U.S. “I just didn’t see how I was going to survive it,” said Mr. Quezada, who opened the eatery in 2017.

This city of nearly 12,000 has become ground zero for a national debate over how to balance boosting wages for the lowest-paid workers and ensuring small businesses can afford to keep employing them.

Proponents say a minimum-wage increase was desperately needed in the hometown of Pixar Animation Studios, where the median rent for a one-bedroom apartment is \$2,840, the median home price is more than \$560,000, and a salad costs more than \$15.

“The Bay Area is more expensive than any other part of the country,” said María Moreno, community organizer with the Restaurant Opportunities Center of the Bay, an advocacy group.

But local businesses say several increases in Emeryville’s minimum wage over the past few years have left them nervous about their financial viability.

“There is a tipping point,” said Erik Hansen, the owner of Moomie’s, who is deciding whether to raise sandwich prices by as much as \$1.50 or lay off one of his three employees. “We may have the highest minimum wage, but I don’t think the people in Emeryville will feel like paying the highest prices in the country.”



Doug Smith, co-owner of Rudy’s Can’t Fail Cafe in Emeryville, Calif., helping set a table. In response to the city’s minimum-wage boost, the cafe raised prices for some of its menu offerings to cover increased labor costs. PHOTO: RACHEL BUJALSKI FOR THE WALL STREET JOURNAL

The debate in Emeryville echoes similar ones across the U.S. In Washington, the Democratic-controlled House of Representatives recently voted to raise the federal minimum wage from \$7.25, where it has

been since 2009, to \$15 an hour by 2025. It is unlikely to be considered in the Senate, where Republicans are in the majority.

Several cities and states controlled by Democrats have increased their minimum wage, including California, where it is currently \$12 and will rise by \$1 every year through 2022 for most workers.

An analysis released in early July by the Congressional Budget Office projected that a \$15 federal minimum wage would boost the pay of 17 million workers who would otherwise earn less than \$15 an hour and lift 1.3 million Americans out of poverty but also result in about 1.3 million lost jobs.

Emeryville first raised its minimum wage above the statewide floor in 2015, to \$12.25 an hour, setting it to automatically increase every year since. Mayor Ally Medina, a Democrat, said the ordinance was meant to help workers cope with the Bay Area's high living costs.



Employees cooking in the kitchen of Rudy's Can't Fail Cafe in Emeryville, Calif. PHOTO: RACHEL BUJALSKI FOR THE WALL STREET JOURNAL

Sheena Luu, a barista at Polaris Cafe, said Emeryville's minimum wage makes it possible for her to afford \$1,500 in rent for her studio apartment. She also works at coffee shops in two nearby cities, earning about \$13 an hour. "If I didn't have it, I would have to cut back," she said of the higher pay in Emeryville.

Maria Anguiana said her city-mandated raise this month is allowing her to contribute to her family's living expenses, with something left for her own future. "This will help me save more for college," the 17-year-old said while waiting tables in Rudy's Can't Fail Cafe.

The flip side can be seen on the menus at Rudy's. Co-owner Doug Smith said he has raised the price of the cafe's signature Deuces Wild special—two pancakes or two pieces of french toast, two eggs and two bacon slices or sausages—to \$14.50 from \$11 in 2015, and the Crunchy Asian Salad to \$15.50 from \$10. But that still isn't enough to cover increased labor costs, he added.

A 2018 survey commissioned by Emeryville found that most retailers had adapted to minimum-wage increases, but the restaurant industry was struggling.

Because restaurants have thin profit margins and rely on low-paid workers, they are particularly vulnerable to minimum-wage raises, experts say.

"We're all up against a brick wall," said Marilyn Boucher, owner of the Broken Rack, who this month cut hours for her workers. She said she had planned to add hours before the July 1 minimum-wage boost.

Ms. Boucher said that at the Broken Rack, payroll costs have risen to 40% of her revenue, from about one-third in 2014. Last year, the business broke even, she said, after previously having profit margins of about 5%.

Business owners in Emeryville recently pressured the city council to temporarily exempt about two dozen small restaurants from the wage increase.

But the council on Tuesday night voted 5-0 to keep the \$16.30 floor in place. The city council also agreed to convene a working group to help small businesses better cope with the higher costs.

“I just did not feel comfortable telling workers they were not getting a pay increase they expected,” said Ms. Medina.

Write to Jim Carlton at jim.carlton@wsj.com