



A PROPOSED  
MINIMUM WAGE FOR  
PRIVATE HEALTHCARE  
FACILITIES

*In the City of Baldwin Park*

An Economic Study

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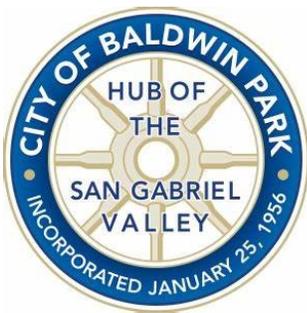
An Economic Study



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The LAEDC Institute for Applied Economics specializes in objective and unbiased economic and policy research in order to foster informed decision-making and guide strategic planning. In addition to commissioned research and analysis, the Institute conducts foundational research to ensure LAEDC's many programs for economic development are on target. The Institute focuses on economic impact studies, regional industry and cluster analysis and issue studies, particularly in workforce development and labor market analysis.

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# Executive Summary

## INTRODUCTION & BACKGROUND

This report analyzes the potential economic implications of implementing a healthcare sector minimum wage increase to \$25 per hour for covered private healthcare facilities in the City of Baldwin Park.

**Covered healthcare facilities include a subset of privately-owned facilities, namely hospitals, outpatient clinics, dialysis clinics, psychiatric hospitals/facilities, and facilities that are part of an integrated healthcare delivery system connected to a private hospital.**

In Baldwin Park, this includes the DaVita Baldwin Park Dialysis, Advanced Dialysis Center, Kindred Hospital Baldwin Park, and Kaiser Permanente Baldwin Park Medical Center; the Kaiser Permanente facility is the city's largest single employer, while health care is the largest employer among industries. **There are no public healthcare facilities in the City of Baldwin Park.**

Proponents of the Initiative Measure believe that the proposed will directly address staffing shortages seen at healthcare facilities with higher wages attracting workers to these facilities and reducing turnover. Opponents of the measure claim that the increased costs to covered facilities resulting from the increased minimum wage will result in a variety of unintended negative economic consequences.

## KEY FINDINGS

- Healthcare services industries in Baldwin Park have low gross operating surpluses and high labor costs compared to other industries in the city.
- In the long run, the minimum wage increase may result in some losses of currently employed workers in the health care industry as well as job growth below what otherwise would have occurred.
- It is also possible that in the long run the minimum wage increase will result in increased attraction and reduced exit in the impacted occupations, accompanied by an increase in labor quality which will dampen negative labor demand effects.
- An estimated 14 to 29 jobs may be lost in the short run due to the proposed minimum wage increase.
- The estimated net short run increase in labor income resulting from the proposed minimum wage is \$6.6 - \$8.2 million.
- In addition to the minimum wage increase's impact on employment and labor income, there are possible unintended economic consequences that may result in terms of higher prices, reduced access, lower business profits, and quality/access reductions.
- A representative from HASC felt that the increase in labor costs associated with the minimum wage hike will largely be paid for by sacrificing access to, quality of, or investment in healthcare services. On the other hand, the SEIU-UHW believes it could and should be funded from hospital profits.

### Affected Job Titles:

- Clinicians
- Nurses
- Certified Nursing Assistants
- Technicians
- Maintenance Workers
- Janitors
- Groundskeeper
- Guard
- Food Service Worker
- Laundry Worker
- Pharmacist
- Nonmanagerial Administrative Worker

## EVALUATION OF CLAIMS SUPPORTING AND OPPOSING THE MINIMUM WAGE

Supporters of the proposed minimum wage increase claim that the main objective of minimum wage increases is to address staffing shortages for certain occupations while improving standards of living for lower-wage workers and reducing income inequality. On the other hand, opponents of the proposed minimum wage increase claim that the minimum wage increase may reduce the welfare of many lower-income workers, while also resulting in a number of unintended negative economic effects.

The minimum wage proposal will likely involve a number of short- and long-term tradeoffs. Economic theory and empirical evidence can provide us with insight regarding potential tradeoffs associated with the proposed minimum wage increase.

### Potential Benefits:

- Increased labor income to remaining employed low wage workers in covered healthcare facilities initially earning below the higher minimum wage.
- Increase in quantity of labor supplied and retention in certain covered healthcare occupations.
- Short run increase in morale and productivity for covered healthcare workers subject the minimum wage increase.

### Potential Costs:

- Short run employment losses, particularly for low wage workers in covered healthcare facilities.
- Increase in long run business exits, employment losses and reduced future employment growth and business entry for covered occupations.
- Non-labor adjustments such as reduced business profits, price increases, and quality and access reductions to pay for increased labor costs.

## BALDWIN PARK INDUSTRY RISK ASSESSMENT

Overall, the industry risk analysis indicates that labor costs already make up a significant portion of total costs in Baldwin Park's healthcare industry. Labor cost intensity is much higher in every analyzed healthcare industry sector than for the all industry average. **Healthcare services industries in Baldwin Park face higher labor intensity than other industries in the city.** On average, all industries in Baldwin Park have a labor cost intensity of 33.8 percent of total output while the average across healthcare industries is 56.0 percent of total output. This means that the proposed 67 percent increase in the minimum wage for the covered private healthcare facilities represents a significant increase in labor costs and therefore overall costs for the healthcare sector which, all else equal, will serve to reduce profitability. The resulting increase in labor costs can be financed in a number of ways including increasing prices for patients, reducing the quality of healthcare services, and reducing profits. Even reduced profits may end up decreasing quality and quantity of healthcare services to patients. For example, affected facilities may be unable to purchase new capital equipment, expand their facilities, or repair or replace existing equipment as a result.

The industry risk analysis also finds that on average the healthcare industry is relatively unprofitable compared to the city's economy as a whole. On average, all industries in Baldwin Park operate with a

gross operating surplus of 16.5 percent of total output. However, **healthcare services industries have an average gross operating surplus of only 5.5 percent, which is significantly lower than the all industry average.** A number of the analyzed healthcare industry sectors in the risk assessment are characterized by razor thin and even negative gross operating surpluses. This means that many affected facilities will be unable to cover the increase in healthcare costs brought on by the minimum wage increase by reducing profits and will have to cover cost increases in other ways or otherwise relocate or go out of business.

## ECONOMIC IMPACT OF THE PROPOSED INITIATIVE MEASURE

### Potential Short Run Impacts

In the short run, there will likely be a number of economic adjustments made by some covered facilities that will result in a change to industry employment. Employment losses or other labor adjustments such as reduced benefits or reduced work hours may take place before the minimum wage increase goes into effect. In addition, adjustments affecting workers may take place during the waiver period which can be claimed by qualifying businesses. Furthermore, employment losses may result in the short run as a result of employee exits whose positions are not subsequently filled. On the other hand, an increase in the minimum wage may serve to attract workers into the industry and increase retention, which will serve to reduce negative employment impacts.

Assuming that existing empirical estimates of short run labor market reactions to a minimum wage increase hold, an estimated 14 to 29 jobs may be lost in the short run as a result of the proposed minimum wage increase.<sup>1</sup> These employment losses represent a loss in economic output, labor income, and tax revenue for the city.

A potential short run benefit of a minimum wage increase is its possible positive impact on labor income for workers who remain employed and do not experience a reduction in work hours. The short run gain in labor income for these low-income workers due to the minimum wage increase may exceed the labor income lost by workers who lost their jobs in the private healthcare sector as a result of the minimum wage increase. An increase in labor income may result in a number of positive economic effects on the local economy including an increase in economic output and local tax revenues.

The estimated short run net increase in labor income resulting from the minimum wage increase is estimated to equal \$6.6 million - \$8.2 million. The resulting increase in labor income above what otherwise would have held will positively affect a number of economic variables.

**Exhibit ES-1: Short Run Economic Impact on Income of the Proposed Minimum Wage Increase**

	Low Reaction Estimate	High Reaction Estimate
Jobs Lost	(-14)	(-29)
Net Income Change	+\$6.6 million	+\$8.2 million

<sup>1</sup> The empirical labor market reactions (elasticities) used in the analysis are not specific to the healthcare industry which may experience less of a negative employment reaction than other industries would.

The proposed minimum wage increase will result in both short run costs and benefits in terms of employment and labor income variables. **Exhibit ES-2** compares the proposed minimum wage increase's estimated economic impact from resulting estimated short run job losses to its estimated economic impact due to net increased labor income.

In the short run, considering only employment adjustments, the increase in labor income resulting from the minimum wage increase is

estimated to have a net positive economic impact on a number of economic variables. However, short run job losses are estimated to occur as a result of the minimum wage increase that will result in reduced net short run total job figures in the healthcare industry.

#### Exhibit ES-2: Net Short Run Economic and Fiscal Impact of Change in Income (Low and High Estimates)

<b>Total Economic Impact:</b>	
Output (\$ millions)	13.1 – 18.6
Employment (jobs)	(-24) – (-12)
Labor income (\$ millions)	10.0 – 11.0
<b>Total Fiscal Impact (\$ millions):</b>	
State and local tax revenues	0.28 – 0.38
Federal tax revenues	0.9 – 1.3

Source: Estimates by LAEDC Using IMPLAN

### Long Run Considerations

The long run is the most policy relevant period of time. This section reviews a number of long run considerations with the aim of providing policymakers and the general public with a potential glimpse into what the future may hold if the Initiative Measure were implemented, including the potential impact on current employment figures, future employment growth, business exits and entries, non-labor impacts like enforcement costs, and spillover into other industries.

## STAKEHOLDER VIEWPOINTS

To understand the perspective of key healthcare stakeholders in the region, LAEDC engaged with leaders from the SEIU-UHW, the proponent of the proposed ordinance, and the Hospital Association of Southern California (HASC), an organization which has urged the Baldwin Park City Council to not pass the ordinance as it stands.

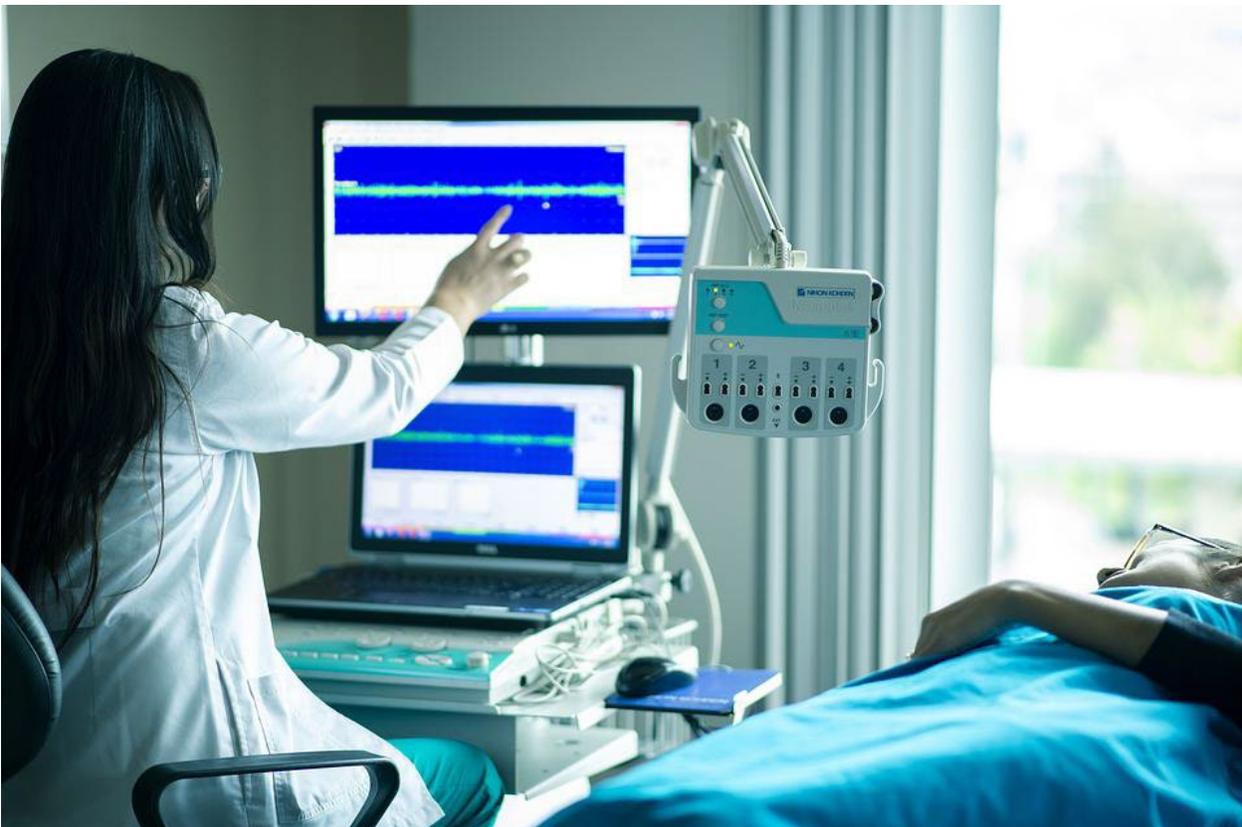
The Initiative Measure was brought forth by SEIU-UHW, a labor union representing more than 100,000 healthcare workers, including many unionized healthcare workers in Baldwin Park. As a result, **SEIU-UHW are strongly in favor of the initiative and believe that the ordinance should be adopted by the City Council.** SEIU-UHW representatives stated that the reason for the minimum wage increase was twofold: **increasing the minimum wage not only provides healthcare workers with the wage that they deserve, but it will also address the understaffing crisis at many hospitals.** The representatives shared that the Initiative Measure came about as a way to address the needs of healthcare workers in the wake of the COVID-19 pandemic, where the union often heard from workers about difficult working conditions, staffing shortages, and worker burnout. In crafting the language for the Initiative Measure, they initially sought to include all hospitals but were unable to mandate an increase in wages at public facilities for legal reasons, however they hope that the post-Initiative Measure labor market puts pressure on these employers to raise their wages as well.

HASC has been a vocal opponent of the Initiative Measure; they work in partnership with the California Hospital Association, which is affiliated with the California Association of Hospitals and Health Systems, the sponsor of the “No on the Los Angeles Unequal Pay Measure” campaign. **In May 2022, HASC asked**

members to formally join the campaign to oppose the proposed ordinances. The messaging around the campaign has stated that the proposed ordinances are **“inequitable, arbitrary, and discriminatory” for the limited scope of the covered facilities, that they “deepen inequities... and jeopardize access to care” by creating workforce shortages at non-covered facilities, and that they would “increase costs to consumers and patients” by increasing labor costs in covered facilities**, with the idea that hospitals will pass costs onto consumers. A representative from HASC shared that “the patchwork quilt of proposed wage ordinances upsets the apple cart and will have ramifications beyond a city’s boundaries,” while another urged the Baldwin Park City Council to “look at the flaws of the current language and perhaps sit down with all of parties involved and discuss moving forward with something that makes sense like other minimum wage increases have.”

## CONSIDERATIONS

1. Policymakers should consider and weigh the potential costs and benefits that may result due to implementation of the proposed minimum wage increase.
2. If the proposed minimum wage is implemented, the City of Baldwin Park should commission a five-year study reviewing the impact of the minimum wage on healthcare business establishments, healthcare workers, patients, and government revenues.



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# Table of Contents

EXECUTIVE SUMMARY .....	ES-i
1. INTRODUCTION.....	1
2.BACKGROUND .....	2
The City of Baldwin Park’s Initiative Measure Regarding Minimum Wage for Health Care Workers.....	3
The Health Care Industry in Baldwin Park .....	5
3. EVALUATION OF CLAIMS SUPPORTING AND OPPOSING MINIMUM WAGE INCREASES .....	1
Arguments in Support of the Minimum Wage Increase.....	1
Arguments Opposing Minimum Wage Increases.....	4
The Minimum Wage and Tradeoffs .....	8
4. BALDWIN PARK INDUSTRY RISK ASSESSMENT.....	9
Risk Exposure.....	9
5. ECONOMIC IMPACT OF THE PROPOSED INITIATIVE MEASURE REGARDING MINIMUM WAGE FOR HEALTHCARE WORKERS.....	13
The Impact of the Proposed Minimum Wage Increase on Short Run Employment and Labor Income..	13
Long Run Considerations.....	17
6. STAKEHOLDER VIEWPOINTS.....	20
Perceived Benefits and Risks .....	20
7.KEY FINDINGS AND CONSIDERATIONS .....	24
Key Findings.....	24
Considerations.....	24
APPENDIX.....	A-Error! Bookmark not defined.
Methodology.....	A-1
Baldwin Park Coalition Letter .....	A-1

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# 1. Introduction

This report analyzes the potential economic implications of implementing a minimum wage increase to \$25 per hour for covered healthcare facilities in the City of Baldwin Park. Covered healthcare facilities include a subset of privately-owned facilities, namely hospitals, outpatient clinics, dialysis clinics, psychiatric hospitals/facilities, and facilities that are part of an integrated healthcare delivery system connected to a private hospital. Clinics like Planned Parenthood are not covered facilities because they are not affiliated with a privately-owned hospital.



Affected healthcare workers include workers specifically providing healthcare-related services such as clinicians, nurses, certified nursing assistants, and technicians. In addition, the proposed ordinance is designed to cover workers employed at covered facilities that do not directly provide healthcare services such as maintenance workers, janitors, housekeepers, and office clerical workers. The report proceeds as follows:

**Section 2** provides background on the proposed minimum wage measure. In addition, Section 2 will review similar initiatives that have taken place in other cities in the Los Angeles region. The section will conclude with an overview of the healthcare industry in Baldwin Park.

**Section 3** provides a brief overview and evaluation of theoretical and empirical arguments supporting and opposing the proposed healthcare minimum wage increase.

**Section 4** provides a relative industry risk assessment for industries in Baldwin Park. The purpose of the vulnerability risk assessment is to determine the relative financial vulnerability of businesses in the healthcare industry which will help determine the industry risk associated with the proposed minimum wage increase.

If enacted, the proposed minimum wage increase will result in a number of economic impacts affecting health care workers, businesses in the healthcare industry, patients, and city tax revenues. **Section 5** provides an economic impact analysis of the proposed minimum wage increase.

**Section 6** of the report will introduce the viewpoints of several stakeholders regarding the proposed minimum wage increase.

Finally, **Section 7** of the report will summarize the study's key findings and provide a number of considerations.

The report's Appendix discusses the study's methodology and key assumptions.

## 2. Background

In large part due to the impact of the COVID-19 pandemic on healthcare workers, several petitions seeking to increase the minimum wage for certain private sector healthcare workers have circulated throughout the Los Angeles region. The purpose of this movement is to improve the lives of healthcare workers subject to the increase as well as to increase the quality and availability of healthcare services. However, critics of recent healthcare minimum wage increase proposals cite a number of potential unintended negative economic consequences for the private healthcare industry, patients, insurance companies, taxpayers, and even healthcare workers themselves.



### Cities with a Minimum Wage for Private Healthcare Facilities Initiative:

- Downey (enacted by ordinance)
- Los Angeles (enacted by ordinance)
- Long Beach (enacted by ordinance)
- Monterey Park (enacted by ordinance)
- Duarte (to be voted upon)
- Inglewood (to be voted upon)
- Baldwin Park (did not qualify)
- Culver City (did not qualify)
- Lynwood (did not qualify)

In 2022, the Service Employees International Union-United Healthcare Workers West (SEIU-UHW), a labor union which represents over 100,000 workers across California, circulated petitions in nine cities in Los Angeles County including Los Angeles, Long Beach, Downey, Inglewood, Lynwood, Duarte, Monterey Park, Baldwin Park, and Culver City. The cities of Los Angeles, Downey, Monterey Park, and Long Beach have enacted SEIU-UHW's initiative by ordinance, establishing a \$25 per hour minimum wage for workers in covered healthcare facilities.<sup>2</sup>

The Initiative also qualified in the cities of Duarte and Inglewood, with both cities selecting to put the healthcare workers minimum wage initiative on the November ballot. The initiative did not qualify in Baldwin Park, Culver City, and Lynwood. The Baldwin Park City Council is considering enacting the initiative by ordinance. In addition, on August 8<sup>th</sup>, the Culver City Council voted 3-2 to direct city staff to draft an ordinance establishing a minimum wage of \$25 for workers in private health care facilities within the city limits.<sup>3</sup>

<sup>2</sup> Smith, K. August 2, 2022. "Monterey Park, Long Beach Approve \$25 Minimum Wage for Healthcare Workers." <https://www.sgvtribune.com/2022/08/02/monterey-park-approves-25-minimum-wage-for-healthcare-workers/>

<sup>3</sup> Culver City Observer. August 11, 2022. "City Council Backs Measure to Raise Minimum Wage for Health Care Workers." <https://www.culvercityobserver.com/story/2022/08/11/news/city-council-backs-measure-to-raise-minimum-wage-for-health-care-workers/11583.html>

In response, the No Unequal Pay Coalition, sponsored by the California Association of Hospitals and Health Systems, has actively worked to stay the ordinances that have been passed in an effort to have the voters decide whether or not to institute the minimum wage ordinance. On August 10<sup>th</sup>, two referendum petitions were filed with the cities of Los Angeles and Duarte putting the minimum wage increases on hold until verification that the petitions contain the required number of valid signatures takes place. If the required number of signatures is verified, the minimum wage increase will be put to a vote.<sup>4</sup>

Minimum wage laws are interventionist policies that seek to raise wages above the equilibrium dictated by market forces. Incorporated cities in Los Angeles County are bound by California's minimum wage laws. However, cities are free to set their own minimum wage levels above the state level. These city-specific minimum wage rates can be designed to cover the entire jurisdiction's labor market or only certain portions of the labor market such as particular facilities in the private healthcare sector. For example, the cities of Los Angeles (\$16.04), Malibu (\$15.96), and Santa Monica (\$15.96) all have general minimum wage levels in place that exceed those of the state. The cities of Malibu and Santa Monica voluntarily passed ordinances that tie their minimum wage levels to Los Angeles County's unincorporated wage schedule.

## THE CITY OF BALDWIN PARK'S INITIATIVE MEASURE REGARDING MINIMUM WAGE FOR HEALTH CARE WORKERS

The proposed Minimum Wage for Healthcare Workers Ballot Initiative spearheaded by the SEIU-UHW failed to qualify in Baldwin Park. As a result, the City Council is considering enacting the initiative by ordinance.

The language and specifics in Baldwin Park's Initiative Measure Regarding Minimum Wage for Health Care Workers is strikingly similar to the language and details of other city healthcare minimum wage proposals in the region. Baldwin Park's Initiative Measure seeks to increase the minimum wage to \$25 per hour for employees working at covered healthcare facilities in the city. Covered healthcare facilities that would be subject to the minimum wage increase include privately-owned general acute care hospitals, clinics, acute psychiatric hospitals, dialysis clinics, psychiatric health facilities, and integrated healthcare delivery system facilities connected to a private hospital. In Baldwin Park, this includes the DaVita Baldwin Park Dialysis, Advanced Dialysis Center, Kindred Hospital Baldwin Park, and Kaiser Permanente Baldwin Park Medical Center, the largest single employer within Baldwin Park.

Currently these workers fall under the state of California's general minimum wage of \$15 per hour for employers with 26 or more employees and \$14 per hour for smaller employers.<sup>5</sup> This increase represents a significant 67 percent increase in the minimum wage for eligible workers at covered facilities. The Initiative Measure applies only to *private* hospitals and clinics and excludes public healthcare employers:

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<sup>4</sup> Abrahms, A., Shiralian, S., and Larios, J. August 20, 2022. "Healthcare Worker Minimum Wage Increase Put on Hold in Los Angeles and Downey but May Soon Take Effect in Two Other California Cities." The National Law Review. <https://www.natlawreview.com/article/healthcare-worker-minimum-wage-increase-put-hold-los-angeles-and-downey-may-soon>

<sup>5</sup> State of California Department of Industrial Relations. 2022. "Minimum Wage." [https://www.dir.ca.gov/dlse/faq\\_minimumwage.htm](https://www.dir.ca.gov/dlse/faq_minimumwage.htm)

it excludes county- and government-owned hospitals which employ a significant share of healthcare workers in the region because it cannot legally mandate wage levels for these facilities.

The Initiative Measure states that the proposed minimum wage increase for healthcare workers is meant to “help address retention challenges and workforce shortages affecting healthcare facilities in Baldwin Park and will fairly compensate healthcare workers for their contributions and sacrifices.” The COVID-19 pandemic put significant strain on healthcare workers many of whom decided to quit their jobs and leave the healthcare industry for other employment. As a result, there is a widely publicized healthcare staffing crisis, with some providers struggling to have sufficient personnel to maintain operations. The Initiative Measure is designed to extend beyond traditional healthcare workers, such as nurses, pharmacists, aides, and technicians, to include occupations such as janitors, maintenance workers, housekeepers, security guards, food service workers, and office clerical workers employed at covered healthcare facilities.

The Initiative Measure states that a covered healthcare facility may obtain a one-year waiver from the increased minimum wage requirement if the facility can show that compliance with the new minimum wage will significantly impact its ability to operate effectively.

Proponents of the Initiative Measure believe that the proposed will directly address staffing shortages seen at healthcare facilities with higher wages attracting workers to these facilities and reducing turnover. The increased healthcare workforce and retention of experienced workers is believed among supporters to have a positive impact on the access to and quality of care for patients, while also reducing payroll spending on programs, such as hiring travel nurses and training new workers. Furthermore, supporters claim that the measure would serve to raise wages to a more livable level for many workers at covered facilities.

Opponents of the measure claim that the increased costs to covered facilities resulting from the increased minimum wage will result in a variety of unintended negative economic consequences. Depending on the type of covered facility, facilities may need to adjust to the new minimum wage through a combination of short run layoffs, benefits, or hours reductions; reduced service quantity and quality; relocation to another jurisdiction or permanent facility closure; or decreased capital investment in new technology and treatment options. In addition, opponents of the measure claim that the minimum wage increase may drive up the cost of healthcare for patients and decrease access to healthcare that will particularly affect lower-income patients. Finally, opponents believe that the exclusion of non-covered facilities will serve to disadvantage the business operations of private covered facilities relative to other facilities and will result in inequitable pay for workers at public and non-covered private facilities doing the same work as those in private covered facilities.

The Initiative Measure language prohibits covered employers from adjusting to cost increases due to the minimum wage increase by reducing premium pay rates, reducing employee benefits, reducing work hours, laying off employees, or increasing charges for parking, work-related materials, or equipment. However, it is possible that employment adjustments will be made before the minimum wage goes into effect or during the waiver period for employers who are granted a waiver.

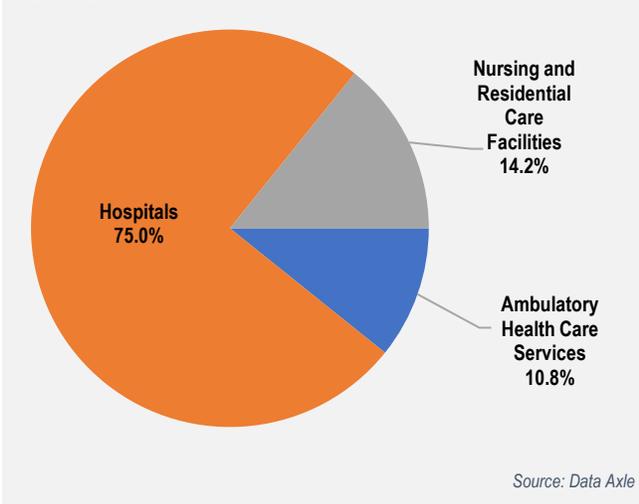


## THE HEALTH CARE INDUSTRY IN BALDWIN PARK

The health care industry, as defined by the North American Industry Classification System (NAICS), is made up of Ambulatory Health Care Services (NAICS 621), Hospitals (NAICS 622), and Nursing and Residential Care Facilities (NAICS 623). Jobs, establishments, and occupations within the subsectors will be analyzed to provide an overview of the Health Care industry in the City of Baldwin Park.

In 2021, **Health Care and Social Assistance made up 4.5 percent of the gross regional product (GRP)** of the City of Baldwin Park, making it the ninth largest industry by GRP contribution. Compared to Los Angeles County, where Health Care and Social Assistance was the fifth industry by GRP contribution, with 8.4 percent of the county's GRP, the Baldwin Park Healthcare and Social Assistance industry makes up a relatively small part of the economy. Though it is not a leading industry in the city by GRP according to Lightcast, the three health care industry subsectors comprise a substantial amount of the city's employment base. Additionally, **the health care industry generated \$3.9 million in state, local, and federal taxes.**

**Exhibit 1: Distribution of Employment by Health Care Subsector**



**The health care industry employs over 4,000 workers, or 18 percent of employment in the City of Baldwin Park.** This is in large part due to the Hospitals subsector, with 3,045 jobs, 13.5 percent of total employment; **the two businesses that drive the sector employment are Kaiser Permanente's Baldwin Park Medical Center and Kindred Healthcare's Kindred Hospital Baldwin Park,** with around 2,800 and 200 employees, respectively. The remainder of workers in Baldwin Park's health care industry are split between **Ambulatory Health Care Services, with 577 workers, and Nursing and Residential Care Facilities, with 437 workers, making up 1.9 percent and 2.6 percent of the total city employment,** respectively. The distribution of employment in the health care industry by subsector is shown in **Exhibit 1.**

There are several notable businesses among the approximately **seventy healthcare facilities** in Baldwin Park; the majority of establishments in the industry is in the Ambulatory Health Care Facilities subsector. There are 60 businesses in Ambulatory Health Care Facilities, which includes Offices of Physicians, Home Health Care Services, Outpatient Care Centers and Medical Laboratories, among others. Notable businesses include Baldwin Park Medical Offices, California Mental Health Connection, and the San Jose Medical Group. Most of the establishments in this subsector will not be considered covered healthcare facilities under the minimum wage ordinance, with the exceptions of the DaVita Dialysis Center and Advanced Dialysis Center. Hospitals in the city, which are covered facilities under the ordinance, are limited to the Kaiser Permanente and Kindred Healthcare facilities. Kaiser Permanente is the largest

employer within the City of Baldwin Park, with over 3,000 employees between its hospital and pharmacies. Finally, the Golden State Care Center and Sierra View Care Center are the largest businesses operating in the Nursing and Residential Care Facilities subsector. There were no public healthcare facilities in these NAICS codes within Baldwin Park.

**Covered Healthcare Facilities with Data Axle Employment Figures:**

- Advanced Dialysis Center (15 employees)
- DaVita Baldwin Park Dialysis (18 employees)
- Kaiser Permanente (3,018 employees)
- Kindred Hospital (181 employees)

The leading occupations in the health care industry in Baldwin Park are in the general categories of Healthcare Practitioners and Technical Occupations (SOC 29-0000) with 40.1 percent of industry employment, Healthcare Support Occupations (SOC 31-0000) with 26.6 percent of industry employment, and Office and Administrative Support Occupations (SOC 43-0000) with 14.7 percent of industry employment. In terms of specific occupations, the top three are Registered Nurses, Home Health and Personal Care Aides, and Nursing Assistants; these occupations make up more than a quarter of all employment in the industry. Within the health care industry, the occupation of Home Health and Personal Care Aides has experienced the largest growth in the number of positions over the last ten years. **Exhibit 2** shows the top ten occupations in the health care industry, along with current median hourly earnings and typical entry level education. **Among the top ten occupations, six have a median hourly earnings rate that is less than \$25 per hour, with each also having an entry-level education below the college level.**

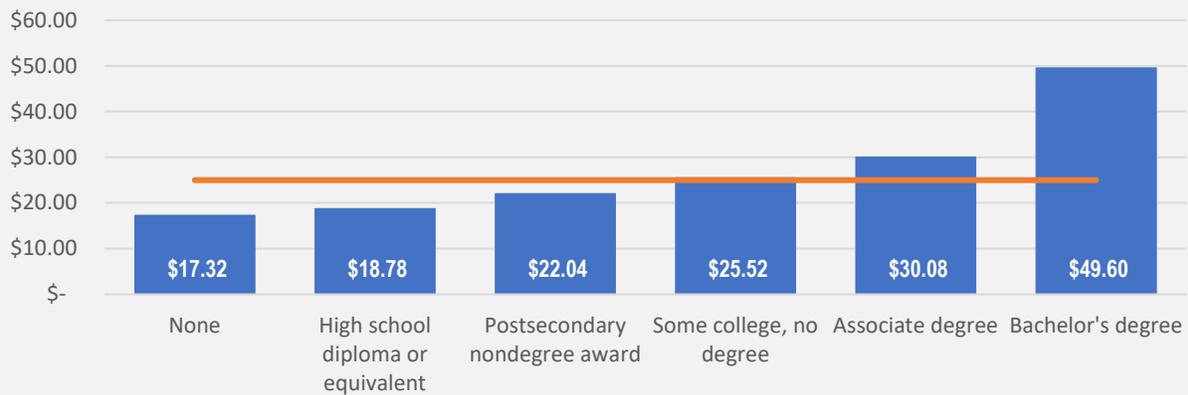
**Exhibit 2: Top Ten Occupations in the Baldwin Park Health Care Industry**

SOC	Description	2021 Jobs	Median Hourly Earnings	Typical Entry Level Education
29-1141	Registered Nurses	562	\$58.21	Bachelor's degree
31-1128	Home Health and Personal Care Aides	393	\$14.30	High school diploma or equivalent
31-1131	Nursing Assistants	261	\$17.76	Postsecondary nondegree award
29-2061	Licensed Practical and Licensed Vocational Nurses	191	\$29.11	Postsecondary nondegree award
43-6013	Medical Secretaries and Administrative Assistants	174	\$22.38	High school diploma or equivalent
31-9092	Medical Assistants	173	\$18.17	Postsecondary nondegree award
31-9091	Dental Assistants	112	\$22.36	Postsecondary nondegree award
43-4171	Receptionists and Information Clerks	85	\$17.34	High school diploma or equivalent
11-9111	Medical and Health Services Managers	83	\$53.01	Bachelor's degree
29-1292	Dental Hygienists	74	\$46.87	Associate's degree

Source: Lightcast

Looking at the effect of education on wages across healthcare occupations in the city, **there is a clear relationship between educational attainment and average wages.** The average hourly wage across all occupations was \$30.64, however this was extremely bifurcated based on college attendance. For those with no formal education credential the average wage was \$17.32 per hour, while those with a high school diploma or equivalent or a postsecondary nondegree award also earned less than \$25 per hour on average, \$18.78 per hour and \$22.04 per hour, respectively. Those with some college but no degree earned just over \$25 per hour. Meanwhile, those with an Associate degree earned just over \$30 per hour and those with a Bachelor's degree earned close to \$50 per hour; there was insufficient data for those with graduate degrees, but the jobs that require master's or doctoral degrees have even higher average annual wages. **Exhibit 3** shows each education level with their associated average annual wages in the health care industry, along with a line that represents \$25 per hour.

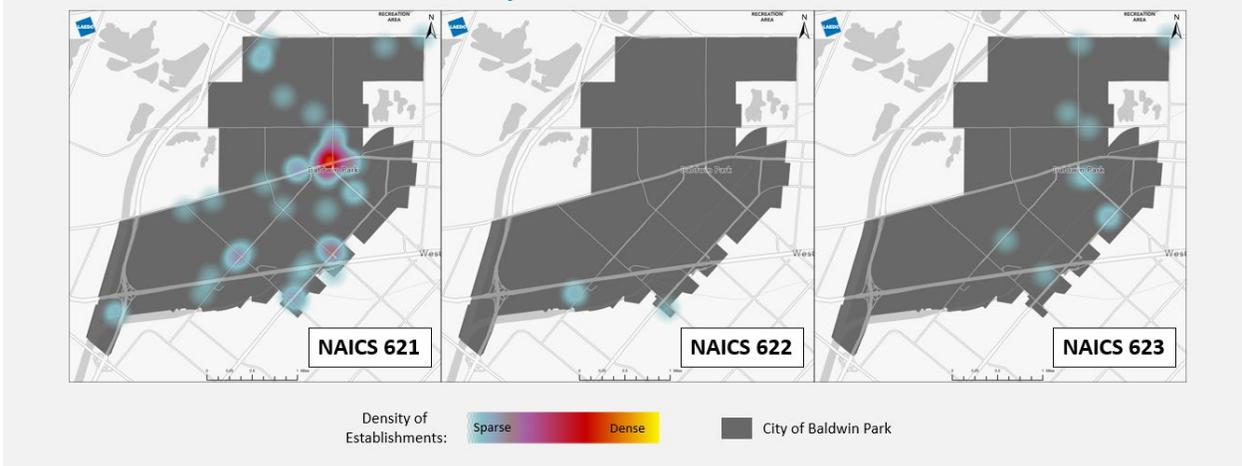
**Exhibit 3: Average Hourly Wages by Educational Attainment**



To look at the distribution of establishments, the component parts of the health care industry, Ambulatory Health Care Services (NAICS 621), Hospitals (NAICS 622), and Nursing and Residential Care Facilities (NAICS 623), are each examined separately in **Exhibit 4**. Looking at the number of establishments, there are far more Ambulatory Health Care Services establishments than Hospitals and Nursing and Residential Care Facilities establishments: 83.3 percent of the establishments in the Baldwin Park Health Care industry are in Ambulatory and Health Care Services, compared to 2.7 percent in Hospitals and 13.8 percent in Nursing and Residential Care Facilities.

Due to the greater number of facilities, the density of establishments for NAICS 621 is much higher, shown by the appearance of red and yellow shading in the left-most heat map. For NAICS 621, establishments are most dense around the intersection of Ramona Boulevard and Maine Avenue, with medical offices near each corner of the intersection. There are other Ambulatory Health Care Services facilities which are scattered around the city, including some pockets in the south with multiple facilities in close proximity. Meanwhile, the two hospitals are both in the most southern part of the city, located below the I-10 Freeway. Nursing and Residential Care Facilities appear scattered around the city, though they are mostly concentrated in the eastern side of Baldwin Park.

**Exhibit 4: Distribution of Health Care Facilities by NAICS Code**



A separate analysis of the Census' Longitudinal Employer-Household Dynamics dataset reveals that workers in the Health Care and Social Assistance sector are spread throughout the city, with no distinguishable clustering of worker residences.

The health care industry supports more jobs than any other industry in Baldwin Park, with the Kaiser Permanente Medical Center being the city's largest employer. Registered Nurses are the most common occupation, however many of the other top occupations are lower skill, lower wage jobs that don't require as much education, such as Home Health and Personal Care Aides. In the health care industry, wages are highly dependent on educational attainment, so many of these lower skill, lower wage positions are those who would potentially benefit from an increase in the minimum wage. Geographically, the industry has two major hubs, the Kaiser Permanente facility where Baldwin Park Boulevard meets the I-10 Freeway and the cluster of Ambulatory Health Care Services facilities on the corner of Ramona Boulevard and Maine Avenue. Workers in the industry live throughout Baldwin Park.



### 3. Evaluation of Claims Supporting and Opposing Minimum Wage Increases

This section presents and evaluates several existing theoretical and empirical claims both supporting and opposing proposed minimum wage increases. Supporters of the proposed minimum wage increase claim that the main objective of the minimum wage increases is to address staffing shortages for certain occupations while improving standards of living for lower-wage workers and reducing income inequality. On the other hand, opponents of the proposed minimum wage increase claim that the minimum wage increase may reduce the welfare of many lower-income workers, while also resulting in a number of unintended negative economic effects.

#### ARGUMENTS IN SUPPORT OF THE MINIMUM WAGE INCREASE

This section introduces a number of claims put forth by supporters of minimum wage increases and evaluates the arguments.

**Increasing wages above the current market equilibrium may improve the quality of labor due to improved morale and decreased turnover.**

**Evaluation:**

An increase in labor productivity due to a minimum wage increase has the potential to offset possible negative employment effects since employers may not feel the need to reduce the number of employees subject to the wage increase or their hours worked.<sup>6</sup> Some research has measured a potential positive impact of increasing the minimum wage on worker productivity due to improved morale and work ethic.

Proponents of a minimum wage increase often claim it will serve to decrease employee turnover resulting in reduced recruiting and training costs and in more experienced employees.<sup>7</sup> This has occurred in other industries when studied, one such study found “evidence that... turnover rates for teens and restaurant workers fall substantially following a minimum wage increase,” decreasing by around 2 percent for a 10 percent rise in the minimum wage.<sup>8</sup>

However, it is possible that the positive effects of the minimum wage on morale and productivity are relatively short term and may erode over time as employees factor the new baseline wage into expectations. In addition, morale may be reduced for employees making just above the new minimum wage who see coworkers who were initially making significantly less now making about the same. This

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<sup>6</sup> Leigh, J.P. and Du, J. October 4, 2018. “Effects Of Minimum Wages on Population Health.” Health Affairs. <https://www.healthaffairs.org/doi/10.1377/hpb20180622.107025/full/>

<sup>7</sup> Janet L. Yellen, "Efficiency Wage Models of Unemployment," Information and Macroeconomics, May 1984

<sup>8</sup> Arindrajit Dube, T. William Lester, and Michael Reich. Oct. 2014. "Minimum Wage Shocks, Employment Flows and Labor Market Frictions," [irle.berkeley.edu](http://irle.berkeley.edu).

may result in a decrease in productivity and increased turnover for these workers earning slightly above the new minimum wage.

**In a labor market where an employer or small number of employers enjoy significant market power, a minimum wage increase above the current market equilibrium could theoretically simultaneously increase employment and raise wages.**

**Evaluation:**

In a labor market where an employer or a group of employers enjoy significant labor market power, employee mobility is limited, resulting in significant employer discretion when it comes to setting wages. In this theoretical case, the effect of increasing the minimum wage is unclear and may result in a simultaneous increase in employment and wages. However, in most real-world markets, employers must compete for labor which is relatively mobile. This serves to significantly reduce employer market power. In addition, the market power case is likely not generally applicable to labor markets for unskilled labor which is the type of labor subject to a minimum wage.<sup>9</sup>

While employer market power for certain sub-sectors of the healthcare industry may be relatively high compared to other sectors of the economy, employers in covered healthcare facilities still face considerable competition for labor from other private healthcare businesses and public healthcare facilities in the city as well as healthcare employers in nearby cities. Moreover, employers in the covered healthcare sector must compete for a labor pool that is also being attracted by employers in other industries besides healthcare. As a result, it is likely that the wages currently being paid to employees in occupations impacted by the healthcare minimum wage increase initiative are currently near competitive market levels. If labor shortages for certain healthcare occupations were simply the result of monetary wages being below the true competitive level, market competition would drive employers to increase the wages they offer in order to attract workers away from competitors and eliminate the shortage. By raising wages, profit-seeking businesses could overcome labor shortages and provide more healthcare services to patients.

**There is currently not a sufficient supply of labor for positions in healthcare that are short-staffed, which are often low-wage occupations. Increasing wages paid to workers in these occupations will serve to encourage qualified workers to enter or reenter these positions thereby ameliorating the understaffing crisis.**

**Evaluation:**

The net long run effect on employment as a result of the proposed minimum wage increase is ambiguous. The proposed healthcare minimum wage increase may attract more labor into affected low-wage healthcare occupations in the long run. However, all else equal, the increased cost of labor will serve to reduce the quantity of labor demanded by employers. Furthermore, business exits from the city through either relocation or closure may result in negative industry employment effects.

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<sup>9</sup> Staiger, D., Spetz, J.E. and Phibbs, C.S. July 1999. "Is There Monopsony in the Labor Market? Evidence from a Natural Experiment." NBER Working Paper No. w7258. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=202434](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=202434)

**A minimum wage increase may serve to increase standards of living for low-income workers and their families and decrease inequality by closing income gaps in the health care industry.**

**Evaluation:**

Those in favor of minimum wage increases claim these increases help poor and low-income families improve their living standards. A minimum wage increase in the health care industry has the potential to increase incomes for low-income workers who remain employed and do not have wages cut. However, the existence of some disemployment effects as a result of minimum wage increases means that the policy change will create both winners and losers. The winners enjoy a higher wage with no loss in employment or hours worked while the losers experience job losses, reduced work hours, or increased difficulty finding work. Numerous research studies fail to find evidence that minimum wages unambiguously help lower-income workers, instead finding that minimum wages may actually increase the number of low-income households.<sup>10</sup>

Empirical evidence on the distributional effects of minimum wage increases is mixed. Raising the minimum wage has been found to both increase the probability that a low-income family will escape poverty as a result of higher wages as well as increase the probability that another non-poor family will become low-income as the minimum wage increase prices family members subject to the increase out of the labor market.<sup>11</sup> This means that minimum wage increases generally redistribute income among low-income households rather than redirecting income from high-income households to low-income households.

The main challenge with using minimum wage legislation as a tool to increase the incomes of low-income families is that it targets low-wage workers instead of low-income families, which are often not the same. Research finds that in the United States, the link between low wages and low family income is relatively weak. According to data from the Current Population Survey, over half of poor families with heads of household aged 18–64 have no family member that works. In addition, some workers are low-income due to relatively few hours worked rather than low wages. Moreover, teenagers are highly overrepresented in the minimum wage workforce. This means that many low-wage workers are not necessarily members of low-income households. As a result, one study estimates that even assuming no associated employment losses, increases in the minimum wage may result in significantly more of the associated increase in labor income being directed to households in the top



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<sup>10</sup> Neumark, D. 2018. “Employment Effects of Minimum Wages.” IZA Institute of Labor Economics. <https://wol.iza.org/articles/employment-effects-of-minimum-wages/long>

<sup>11</sup> Neumark, D., Schweitzer, M., and William Wascher. February 1, 1999. “Will Increasing the Minimum Wage Help the Poor?” Federal Reserve Bank of Cleveland Economic Commentary.

half of the income distribution rather than to households below the poverty line.<sup>12</sup>

While low wages make life difficult for many low-income families, the argument that a higher minimum wage is an effective tool to improve their economic well-being is not generally supported by the empirical evidence.<sup>13</sup> However, it is possible that holding other factors constant minimum wage increases for the lowest earners in the healthcare industry may serve to close income gaps within an industry for remaining workers.

**Labor cost increases as a result of the minimum wage can be paid for out of business profits, which will leave customers and employees unaffected.**

**Evaluation:**

All possible adjustments undertaken by businesses to pay for the increase in labor costs resulting from a minimum wage increase represent a cost of the minimum wage policy. A reduction in business profits is not costless: reduced profits may lead to business closures and relocations, reduced hiring and expansion, job losses, reduced future business entry, reduced spending for goods and services by businesses, and reduced investment that could have improved and increased healthcare service provision. Even if business profit reductions are the primary mechanism by which increased labor costs will be paid for, reduced profits may have a negative impact on patients since businesses usually finance investment and expansion with profits and loans that are eventually repaid out of profits.

## ARGUMENTS OPPOSING MINIMUM WAGE INCREASES

This section introduces a number of claims put forth by opponents of minimum wage increases and evaluates the arguments.

**Business adjustments in response to an increase in the minimum wage may negatively impact consumers and may include price increases for consumers as well as service and product quality reductions.**

**Evaluation:**

It is important to understand how minimum wage increases may impact consumers, especially patients in the health care industry. Consumers may end up paying higher prices or receiving lower quality goods and services as a result of a minimum wage increase as businesses pass on higher labor costs. Healthcare prices for patients, governments, and insurance companies may rise along with a minimum wage increase in the private health care sector. However, price increases would likely not be immediate and may only take place gradually over time. Some research suggests that in the short run, healthcare prices may not

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<sup>12</sup> Lundstrom, S. M. 2014. “When is a Good Time to Raise the Minimum Wage?” *Contemporary Economic Policy* 35:1 (2017): 29–52. Sabia, J. 2014. “Minimum Wages: An Antiquated and Ineffective Antipoverty Tool.” *Journal of Policy Analysis and Management* 33:4 (2014): 1028–1036.

<sup>13</sup> Neumark, D. 2018. “Employment Effects of Minimum Wages.” IZA Institute of Labor Economics. <https://wol.iza.org/articles/employment-effects-of-minimum-wages/long>

increase significantly as a result of the minimum wage increase.<sup>14</sup> As a result of this relative price inflexibility, adjustments will be more concentrated in other reactions to higher labor costs, including reduced access, lower business profits, and quality reductions.

If covered healthcare facilities demand less labor as a result of higher labor costs resulting from the minimum wage increase, it would likely exacerbate staffing issues and may result in a decrease in the quality of care or healthcare access to patients, specifically for lower-income patients.

**Adjustments to higher labor costs by businesses as a result of the minimum wage may negatively affect a number of low-income workers – the very group minimum wage legislation seeks to help. These adjustments may include the elimination of jobs, reduction in work hours, and reductions in non-monetary forms of compensation. In addition, a minimum wage increase may result in lower future job growth in targeted occupations below what otherwise would have occurred.**

#### **Evaluation:**

The minimum wage has the potential to cause employment losses for lower-income workers subject to the wage increase. However, there are conditions in addition to the theoretical market power case reviewed above that will result in little to no employment losses as a result of a minimum wage increase holding other factors constant. Disemployment effects will likely be less pronounced for industries like healthcare where consumers do not significantly alter their demand for goods or services as a result of changes in prices.<sup>15</sup> If employers in an industry have a relatively fixed demand for affected labor so that they hire approximately the same number of workers despite an increase in wages, a minimum wage increase may not significantly reduce employment. This labor market situation is more likely to characterize the short term rather than the long term and is more likely to characterize certain industries, including health care.

Furthermore, long run prohibitions on certain labor market adjustments as outlined in the Baldwin Park Initiative Measure will likely dampen the negative effect of the proposed minimum wage on employment variables.

Finally, relatively small minimum wage increases are often associated with little to no resulting employment losses. However, the proposed \$25 per hour minimum wage increase represents a significant increase that may result in significant negative employment effects.

There are reasons to believe that employment losses, hours reductions, and benefit decreases will take place both in the short run and long run as a result of the proposed minimum wage increase. In the long run, even with perfectly enforced labor market adjustment prohibitions in place, job losses may take place due to employee quits and retirements that are not rehired as well as business closures and relocations that result in associated employment losses. Significant short run employment adjustments may take

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<sup>14</sup> Fiedler, M. April 2022. “What Does Economy-Wide Inflation Mean for the Prices of Healthcare Services (and Vice Versa)?” USC-Brookings Schaeffer Initiative for Health Policy <https://healthpolicy.usc.edu/brookings-schaeffer/what-does-economy-wide-inflation-mean-for-the-prices-of-healthcare-services-and-vice-versa/>

<sup>15</sup> Leigh, J. P. 2019. “Arguments For and Against The \$15 Minimum Wage for Health Care Workers.” American Journal of Public Health, 109(2), 206-207.

place before employment prohibitions kick in. In addition, employment adjustments will likely take place during the one-year waiver period for businesses that are granted the waiver.

Furthermore, in the long run, employment growth in the health care industry may be negatively affected and fall below what otherwise would have taken place without the minimum wage increase. One potential unseen impact of a minimum wage increase is an associated reduction in hiring of low-skilled workers compared to what otherwise would have happened without the minimum wage increase in place.<sup>16</sup> **These jobs that were never created should be considered a cost of a minimum wage increase.** Research finds that the effect of the minimum wage is more significant in terms of new employment growth compared to employment levels.<sup>17</sup> The minimum wage has been found to reduce net job growth, mostly through decreased job creation by expanding businesses.

An extensive review of over 100 empirical studies analyzing the employment effects of minimum wages found that almost two-thirds of the studies estimated that the minimum wage had negative effects on employment.<sup>18</sup> In addition, of the 33 empirical studies judged most credible, 28 (85 percent), found negative employment effects. Moreover, those studies focusing on low-skilled workers found the strongest evidence of negative employment effects.

A number of empirical studies have found that there are only small negative employment effects associated with minimum wage increases. However, the empirical minimum wage literature that finds little to no negative employment effects often focuses on estimating short run employment responses to minimum wage increases which are much less pronounced than long run effects.<sup>19</sup> In addition, the bulk of these studies look at situations where economic actors have already adjusted to the minimum wage policy and to the strong likelihood that minimum wages will be raised in the future.<sup>20</sup> This means that these studies really indicate how economic actors adjust to unexpected increase in the minimum wage above and beyond what is expected. Critics of these studies claim that they are not actually answering the question of what would happen to employment if no minimum wage increases were anticipated.



<sup>16</sup> Boudreaux, D. December 9, 2014. "The Detectable and the Undetectable." Café Hayek. <https://cafehaye.com/2014/12/the-detectable-and-the-undetectable.html>

<sup>17</sup> Meer, J., & West, J. 2016. "Effects of the Minimum Wage on Employment Dynamics." *Journal of Human Resources*, 51(2), 500-522.

<sup>18</sup> Neumark, D., Wascher, W. 2007. "Minimum wages and employment" *Foundations and Trends in Microeconomics* 3:1–2 (2007): 1–186.

<sup>19</sup> See Neumark, D., & Wascher, W. 1992. "Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws." *ILR Review*, 46(1), 55-81.

Dube, A., Lester, T. W., & Reich, M. 2010. "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties." *The Review of Economics and Statistics*, 92(4), 945-964.

<sup>20</sup> Boudreaux, D. April 25, 2016. "A Proposed Minimum-Wage Experiment." Café Hayek. <https://cafehaye.com/2016/04/40727.html>

**An extreme cost saving adjustment by affected businesses in response to the minimum wage may involve business exit from the jurisdiction or permanent business closure. An increase in the minimum wage will be particularly harmful to small businesses and businesses that are on the margin of closure.**

**Evaluation:**

The proposed increase in the minimum wage at covered healthcare facilities may result in an increase in business exits out of the Baldwin Park health care industry due to relocation to other jurisdictions without a similar minimum wage as well as permanent business closures. Minimum wage increases have been found to reduce business value and profitability for affected businesses, increasing the probability of business exit from a jurisdiction, particularly the exit of financially weaker businesses.<sup>21</sup>

However, it is possible that businesses in the health care sector may be less vulnerable to relocation and exit than businesses other industries. Furthermore, healthcare establishments will not all face the same risk of relocation or closure. Some facilities in the affected health care sector will be much less likely to exit the city than others or to postpone exits far into the future.

**An increase in a jurisdiction’s minimum wage may negatively affect future business entry into the jurisdiction.**

**Evaluation:**

An increase in the minimum wage will likely reduce business profitability for affected businesses. This will serve to decrease incentives for other businesses to enter the affected industry. Research has found that minimum wage increases do in fact deter new businesses from locating in an area implementing a minimum wage increase. This deterrence is particularly strong for businesses in industries that rely on workers with low levels of education who are subject to minimum wage laws.<sup>22</sup> One study found that a \$1 increase in the minimum wage reduced new business establishments in the minimum wage jurisdiction by 4 to 6 percent.<sup>23</sup>

**A potential negative consequence of a minimum wage increase is reduced on-the-job training and experience for some low-skilled workers.**

**Evaluation:**

Opponents of the minimum wage often point to the policy’s potential negative effect on job training and experience for low-income workers. One study found that a 10 percent increase in the minimum wage reduced on-the-job training for new workers by 1.5 to 1.8 percent.<sup>24</sup> On-the-job training allows low-skilled workers to improve their skills and become more productive, justifying higher wages. As a result,

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<sup>21</sup> Luca, D. L., & Luca, M. 2019. “Survival of the Fittest: The Impact of the Minimum Wage on Firm Exit.” (No. w25806). National Bureau of Economic Research.

<sup>22</sup> Rohlin, S. M. 2011. “State Minimum Wages and Business Location: Evidence From a Refined Border Approach.” *Journal of Urban Economics*, 69(1), 103-117.

<sup>23</sup> Rohlin, S. M. 2011. “State Minimum Wages and Business Location: Evidence From a Refined Border Approach.” *Journal of Urban Economics*, 69(1), 103-117.

<sup>24</sup> David Neumark and William Wascher. 1998. “Minimum Wages and Training Revisited,” NBER Working Paper no. 6651, National Bureau of Economic Research, Cambridge, Mass.

minimum wage laws may serve to reduce future opportunities and income for low-skilled or unskilled workers.

## THE MINIMUM WAGE AND TRADEOFFS

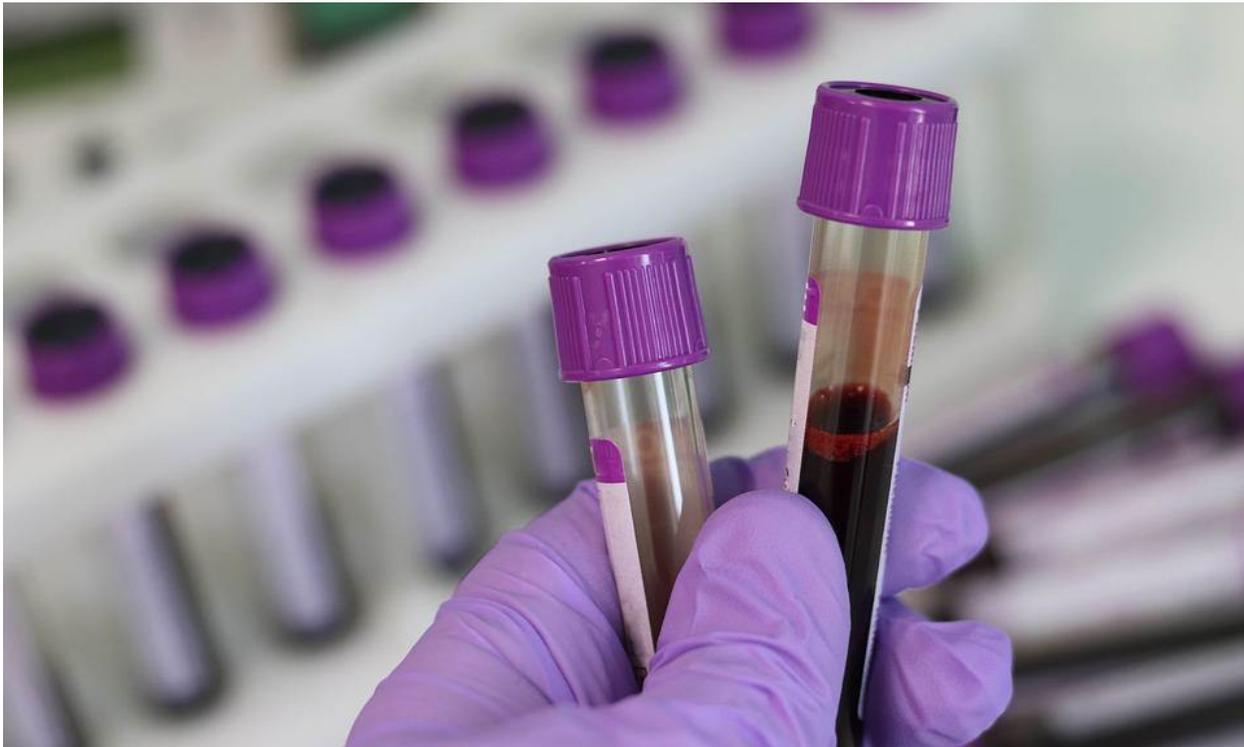
**The minimum wage proposal will likely involve a number of short- and long-term tradeoffs.** Economic theory and empirical evidence can provide us with insight regarding potential tradeoffs associated with the proposed minimum wage increase.

### Potential Benefits:

- Increased labor income to remaining employed low wage workers in covered healthcare facilities initially earning below the higher minimum wage.
- Increase in quantity of labor supplied and retention in certain covered healthcare occupations.
- Short run increase in morale and productivity for covered healthcare workers subject the minimum wage increase.

### Potential Costs:

- Short run employment losses, particularly for low wage workers in covered healthcare facilities.
- Increase in long run business exits, employment losses, reduced future employment growth for covered occupations, and reduced business entry for covered facilities.
- Non-labor adjustments such as reduced business profits, price increases, and quality and access reductions to pay for increased labor costs.



## 4. Baldwin Park Industry Risk Assessment

This section provides an industry risk assessment that creates a financial risk profile for Baldwin Park's health care industries in zip code 91706. This vulnerability risk assessment will be used to establish whether the health care industry is relatively financially vulnerable which will help determine the industry risk associated with the proposed increase in the minimum wage.

Contrary to popular belief, on average, private hospitals were relatively unprofitable during the COVID-19 pandemic.<sup>25</sup> Many hospitals faced financial hardship as a result of the decline in profitability. A 2022 study conducted by researchers at Johns Hopkins Bloomberg School of Public Health found that hospitals lost an average of \$1 for every \$100 earned from patient care activities before the pandemic which equals an operating margin of (-1) percent. **In 2020, that operating loss increased to between \$7 and \$8 per every \$100 earned, equaling an operating margin of (-7.4) percent.** The increased financial loss experienced by hospitals during the pandemic is due to a number of factors including deferral of elective procedures and non-emergency appointments as well as a consequent shift of resources towards COVID-19 patients, many who lacked insurance to pay for treatment. In particular, hospitals that served disadvantaged patients were most vulnerable to financial strain.

The industry risk assessment in this section may help predict the manner in which increased labor costs due to the proposed minimum wage increase may be paid for. If the Baldwin Park health care sector is relatively profitable, it is possible that the higher labor costs resulting from the minimum wage increase may in large part be paid for out of business profits. If, on the other hand, the Baldwin Park health care industry is relatively unprofitable, business reactions to higher labor costs are more likely to include adjustments such as relocation and closure, price increases, quality decreases, and reduced healthcare access. If healthcare facilities serving lower income areas are on average even less financially secure, there is a higher probability that cost increases may take these non-profit forms, which will have a negative impact on lower income patients.

### RISK EXPOSURE

This section of the report looks at the labor cost and profit margin picture of healthcare services industries in the zip code of 91706, of which the City of Baldwin Park is a part, to understand the vulnerability of each industry to changes in the cost of doing business, including their ability to face increased labor costs that the proposed minimum wage for covered privately-owned healthcare facilities would introduce.

Healthcare services in this section of the report are defined as: Ambulatory Health Care Services (NAICS 621), Hospitals (NAICS 622), and Nursing and Residential Care Facilities (NAICS 623).

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<sup>25</sup> Abrahms, A., Shiralian, S. Wednesday, July 6, 2022. "Los Angeles Private Hospitals: A Minimum Wage Increase for Health Care Workers Will Likely Take Effect This Year." <https://www.natlawreview.com/article/los-angeles-private-hospitals-minimum-wage-increase-health-care-workers-will-likely>

### Gross Operating Surplus

As one alternative to raising the prices of their goods and services, businesses in industries that experience increased input costs may instead absorb cost increases through profit reductions. The ability of the average businesses to do so is necessarily dependent on an industry’s typical profit situation. Many industries have extremely thin profit margins meaning that the average business in the industry will not be able to absorb costs increases without price increases or other adjustments such as quality decreases. On the other hand, other industries have a significant margin cushion and are less vulnerable to increases in input prices or other adjustments.



**Exhibit 5** shows health care industries by their gross operating surplus as a percentage of total output (which are essentially profit margins). The higher this profit margin, the more likely the industry will be able to absorb higher input costs in the form of lower profits. Industries with smaller or even negative gross surplus as a share of total output have little to no ability to absorb cost increases through profit reductions. If these industries are also unable to increase the prices of their goods and services or make other adjustments, they will face an existential risk.

All industries in Baldwin Park (zip code 91706) on average, operate close to the margin, with a gross operating surplus of 16.5 percent of total output. However, **healthcare services industries have an average gross operating surplus of only 5.5 percent, which is significantly lower than the all industry average.** Particular industries that are especially significant and operating at or below a financial break-even point include outpatient care centers, home healthcare services, nursing and community care facilities, residential intellectual and developmental disability, mental health, and substance abuse facilities, and hospitals. These industry types have very little room for businesses to absorb cost increases.

**Exhibit 5: Health Care Industries by Gross Operating Surplus**

NAICS	Industry	Gross Operating Surplus (% Total Output)
6211	Offices of physicians	3.3%
6212	Offices of dentists	17.9%
6213	Offices of other health practitioners	28.7%
6214	Outpatient care centers	-4.3%
6215	Medical and diagnostic laboratories	26.4%
6216	Home health care services	-2.7%
6219	Other ambulatory health care services	8.0%
622	Hospitals	7.6%
6231	Nursing and community care facilities	1.8%
6232	Residential intellectual and developmental disability, mental health, and substance abuse facilities	1.6%
<i>Average of all health care industries listed</i>		5.5%
<b>Average of all industries</b>		<b>16.5%</b>

Source: IMPLAN Data for California; Analysis by LAEDC

### Labor Cost Intensity

**Exhibit 6** breaks down Baldwin Park’s health care industries by their labor expenses as a percentage of total output. The higher this percentage, the more likely that businesses in the industry will be unable to absorb higher labor costs. If high labor cost intensity is accompanied by low profit margins and businesses are unable to increase the prices of their goods and services or make other adjustments, they may face an existential risk.



**Healthcare services industries in Baldwin Park face higher labor intensity than other industries in the city.** All industries in Baldwin Park (zip code 91706) on average, have a labor cost intensity of 33.8 percent of total output while the average across healthcare industries is 56.0 percent of total output.

### Profits and Labor Costs

The risk assessment conducted above provides insights regarding:

1. How impactful the proposed minimum wage increase will be for Baldwin Park’s health care industry in terms of raising labor costs and the impact of these increased costs on industry profitability.
2. How profitable the industry is and therefore how able Baldwin Park’s health care sector will be to finance increased labor costs out of profits.

**Exhibit 6: Health Care Industries by Labor Cost Intensity**

NAICS	Industry	Labor Cost (% Total Output)
6211	Offices of physicians	64.2%
6212	Offices of dentists	50.3%
6213	Offices of other health practitioners	45.5%
6214	Outpatient care centers	67.9%
6215	Medical and diagnostic laboratories	42.5%
6216	Home health care services	77.5%
6219	Other ambulatory health care services	53.3%
622	Hospitals	49.0%
6231	Nursing and community care facilities	56.8%
6232	Residential intellectual and developmental disability, mental health, and substance abuse facilities	63.5%
	<i>Average of all healthcare industries listed</i>	56.0%
	<b>Average of all industries</b>	<b>33.8%</b>

Source: IMPLAN Data for California; Analysis by LAEDC

Overall, this section’s industry risk analysis indicates that labor costs already make up a significant portion of total costs in Baldwin Park’s health care industry. Labor cost intensity is much higher in every analyzed health care industry sector than for the all industry average. This means that the proposed 67 percent increase in the minimum wage for the covered private healthcare facilities represents a significant increase in labor costs and therefore overall costs for the healthcare sector which, all else equal, will serve to reduce profitability. Additionally, labor costs may rise for other non-covered facilities as they advertise higher wages to attract workers in the new, higher wage labor market.

The resulting increase in labor costs can be financed in a number of ways including increasing prices for patients, reducing the quality of healthcare services, and reducing profits. Increased labor costs may be covered in a combination of ways and may ultimately negatively affect patients through increased prices, reduced quality, or reduced access. Even reduced profits may end up decreasing quality and quantity of

healthcare services to patients. For example, affected facilities may be unable to purchase new capital equipment, expand their facilities, or repair or replace existing equipment as a result.

The industry risk analysis also finds that on average the healthcare industry is relatively unprofitable compared to the city's economy as a whole. A number of the analyzed healthcare industry sectors in the risk assessment are characterized by razor thin and even negative gross operating surpluses. This means that many affected facilities will be unable to cover the increase in healthcare costs brought on by the minimum wage increase by reducing profits and will have to cover cost increases in other ways or otherwise relocate or go out of business.

### Impact on Business Exits

Increases in the minimum wage have been found to reduce business value and profitability, increasing the probability of business exits from a jurisdiction through either relocation or closure, particularly the exit of less profitable businesses.

It is possible that on average the health care sector is less vulnerable to relocation and exit than other industries. In addition, affected businesses facilities do not all face the same risk of relocation or closure with some facility types in the affected health care sector significantly less likely to exit the city than others or to do so further into the future. However, the industry risk assessment conducted in this section suggests that profitability in the city's health care industry is relatively low while labor cost intensity is relatively high, putting some businesses at increased risk of closure or relocation as a result of a significant increase in the minimum wage.



# 5. Economic Impact of the Proposed Initiative Measure Regarding Minimum Wage for Healthcare Workers

The proposed Initiative Measure will result in a combination of potential benefits and costs that should be considered by policymakers.

This section will begin by estimating the impact of the proposed minimum wage increase on short run employment and labor income. Short run employment may be negatively affected by the implementation of the proposed minimum wage increase. However, the minimum wage also has the potential to raise incomes for a number of low-wage workers in covered healthcare facilities. The potential economic impact of the proposed minimum wage increase on long run variables including employment, business exits and entries, business profits, prices to patients, and quality and access to healthcare will also be discussed.

This section estimates the potential impact of the proposed minimum wage increase on Baldwin Park's covered healthcare facilities using *existing* empirical estimates of the reaction of different economic actors to minimum wage increases. These estimated reactions are not specific to Baldwin Park's healthcare sector. The more these existing estimated reactions differ from what would have held for the city's private health care sector, the more the estimates provided will diverge from what will occur in reality.

## THE IMPACT OF THE PROPOSED MINIMUM WAGE INCREASE ON SHORT RUN EMPLOYMENT AND LABOR INCOME

When it comes to employment and labor income, a minimum wage increase could result in three outcomes.

- 1. Total employment and total labor income decrease.** In this case, conditions are such that the higher wages to workers that kept their jobs is less than the income that was earned by workers who lose their jobs through layoffs, business relocation, and reduced hours.
- 2. Total employment and total labor income increase.** In this situation, total employment and total labor income may simultaneously increase along with a hike in the minimum wage in a labor market situation where an employer has significant market power. In this case, other changes beyond the minimum wage increase may have taken place in the economy that caused an increase in employment and labor income. As a result, a complete empirical study would control for other factors in order to isolate the effect of the minimum wage increase on employment and labor income.
- 3. Total employment decreases and total labor income increases.** This case is characterized by a clear tradeoff. Workers earning the new higher minimum wage who have kept their jobs and have not had hours cut will experience a resulting increase in income. On the other hand, some employees have lost their jobs or have had their hours cut as a result of the minimum wage leading to lower incomes

for these workers. In this scenario, the minimum wage increase creates both labor market winners and losers.

### Potential Short Run Impact on Healthcare Employment

In the short run, there will likely be a number of economic adjustments made by some covered facilities that will result in a change to industry employment. Employment losses or other labor adjustments such as reduced benefits or reduced work hours may take place before the minimum wage increase goes into effect. In addition, adjustments affecting workers may take place during the waiver period which can be claimed by qualifying businesses. Furthermore, employment losses may result in the short run as a result of employee exits whose positions are not subsequently filled. On the other hand, an increase in the minimum wage may serve to attract workers into the industry and increase retention, which will serve to reduce negative employment impacts.

This section focuses on estimating the potential short run employment impact of an increase in the covered healthcare sector’s minimum wage to \$25 per hour. Short run adjustments to variables such as work hours or fringe benefits will not be analyzed although such adjustments may also take place.

**Exhibit 7: Short Run Direct Employment Effect of the Proposed Minimum Wage Increase**

	Low Estimate (-14)	High Estimate (-29)
Number of Jobs		

Source: Estimates by LAEDC

Assuming that existing empirical estimates of short run labor market reactions to a minimum wage increase hold, an estimated 14 to 29 jobs may be lost in the short run as a result of the proposed minimum wage increase.<sup>26</sup> These employment losses represent a loss in economic output, labor income, and tax revenue for the city. Estimated lost economic output as a result of these job losses is equal to \$2.9 - \$5.9 million in the short run. In addition, the estimated resulting lost labor income would total \$1.5 - \$2.9 million. Finally, lost state and local tax revenues are estimated to equal \$50,000 to \$110,000 for the short run period.

**Exhibit 8: Short Run Economic Impact of Proposed Minimum Wage Increase (Low and High Estimates)**

<b>Total Economic Impact:</b>		
Output (\$ millions)		(-5.9) - (-2.9)
Employment (jobs)		(-29) - (-14)
<i>Direct</i>		(-29) - (-14)
<i>Indirect and induced</i>		-
Labor income (\$ millions)		(-2.9) - (-1.5)
<b>Total Fiscal Impact (\$ millions):</b>		
State and local tax revenues		(-0.11) - (-0.05)
Federal tax revenues		(-0.4) - (-0.2)

Source: Estimates by LAEDC Using IMPLAN

The proposed increase in the minimum wage will also result in benefits to employees who keep their jobs and were previously making below \$25 per hour. Next, we will calculate this increase in labor income and its potential economic benefits and weigh it against the potential short run economic costs above.

<sup>26</sup> The empirical labor market reactions (elasticities) used in the analysis are not specific to the healthcare industry which may experience less of a negative employment reaction than other industries would.

### Potential Short Run Impact on Labor Income

A potential short run benefit of a minimum wage increase is its possible positive impact on labor income for workers who remain employed and do not experience a reduction in work hours. The short run gain in labor income for these low-income workers due to the minimum wage increase may exceed the labor income lost by workers who lost their jobs in the private health care sector as a result of the minimum wage increase. An increase in labor income may result in a number of positive economic effects on the local economy including an increase in economic output and local tax revenues.

Our above job loss estimates are associated with a short run loss in labor income of around \$1.5 - \$2.9 million from implementation of the minimum wage increase. However, employees in the city’s covered healthcare facilities who were previously earning below the minimum wage and who did not lose their jobs will be making at least the new minimum wage of \$25 per hour. This direct increase in income is estimated to equal \$9.3 - \$9.4 million. The resulting increase in labor income above what otherwise would have held will positively affect a number of economic variables. This increase in labor income will result in a number of positive benefits for the economy including further increased labor income through indirect and induced effects. Overall, the estimated \$9.3 - \$9.4 million direct increase in labor income, resulting from the wage increase for employees previously making below the minimum wage who did not lose their jobs, will result in a further estimated increase in labor income due to indirect and induced effects. Combined, the resulting increase in total labor income is estimated between \$9.5 million - \$9.7 million.

**Exhibit 9: Short Run Economic Impact of an Increase in Labor Income (Low and High Estimates)**

<b>Total Economic Impact:</b>	
Output (\$ millions)	19.2 – 19.4
Employment (jobs)	0
<i>Indirect and induced</i>	0
Labor income (\$ millions)	9.5 – 9.7
<b>Total Fiscal Impact (\$ millions):</b>	
State and local tax revenues	0.42 - 0.43
Federal tax revenues	1.29 - 1.31

Source: Estimates by LAEDC using IMPLAN

These labor income estimates are confined to the short run. The impact of the increase in the minimum wage impact on labor income will likely change over time if more employees enter the occupations that are subject to the minimum wage increase or if employees currently in these occupations exit covered healthcare facilities.

### Potential Net Short Run Economic Impact on Employment and Labor Income

As shown above, the proposed minimum wage increase will result in both short run costs and benefits in terms of employment and labor income variables. Here we will compare the proposed minimum wage increase’s estimated economic impact from resulting estimated short run job losses to its estimated economic impact due to net increased labor income.

**Exhibit 10: Net Short Run Economic and Fiscal Impact of Change in Income (Low and High Estimates)**

<b>Total Economic Impact:</b>	
Output (\$ millions)	13.3 – 16.5
Employment (jobs)	(-29) – (-14)
Labor income (\$ millions)	6.6 – 8.2
<b>Total Fiscal Impact (\$ millions):</b>	
State and local tax revenues	0.31 – 0.38
Federal tax revenues	0.9 – 1.1

Source: Estimates by LAEDC Using IMPLAN

In the short run, considering only employment adjustments, the increase in labor income resulting from the minimum wage increase is estimated to have a net positive economic impact on a number of economic variables. However, short run job losses are estimated to occur as a result of the

minimum wage increase that will result in reduced net short run total job figures in the health care industry. The resulting short run job losses are estimated to exceed any indirect and induced job gains resulting from the net increase in labor income. On the other hand, the short run economic impact in terms of increased economic output, labor income, and tax revenues of the increase in labor income to employees previously making less than the minimum wage exceeds the economic losses in terms of these variables resulting from lost jobs.

**Exhibit 11: Short Run Economic Impact on Income of the Proposed Minimum Wage Increase**

	Low Reaction Estimate	High Reaction Estimate
Jobs Lost	(-14)	(-29)
Net Income Change	+\$6.6 million	+\$8.2 million

Source: Estimates by LAEDC

It must be noted that this short run economic impact analysis focuses only on employment effects and thus ignores other potential non-labor economic reactions resulting from the minimum wage such as increased prices, reduced profits, and declines in quality or access. While this economic impact analysis does not attempt to estimate the impact of the minimum wage on these other economic variables, it should be noted that these variables may be negatively affected as a result, making the overall economic impact of the minimum wage on metrics except for employment in the short run ambiguous.

The increase in labor income (labor costs to employers) may be paid for through a combination of reduced business profits, increased prices to customers, reduced healthcare quality, and reductions in inflation-adjusted wages and salaries to higher paid employees. Research finds that in the short run, in response to minimum wage increases, few businesses fire workers, choosing to adjust their labor input to the new economic situation over time.<sup>27</sup> Instead, businesses tend to cover their resulting higher labor costs in the short run by making non-employment adjustments. As a result, economic adjustments due to the minimum wage increase will likely take some non-labor forms such as higher prices, decreased quality, reduced access, and lower business profits. These adjustments may serve to further increase the estimated short run economic costs of an increase in the minimum wage.

Each of these possible non-labor adjustments have associated costs. For example, reduced business profits may result in several negative economic consequences, both in the short and long run. Reduced business profits may translate to lower income to business owners and consequently lowered economic spending by them. In addition, reduced business profits may result in reduced business investment that could have resulted in increased quality or quantity of healthcare services to patients. Finally, reduced business profits may prevent private healthcare businesses from hiring additional labor and could lead some businesses to exit the city through closure or relocation.

Research suggests that in the short run, the ability of healthcare facilities to raise prices in response to a minimum wage increase may be limited.<sup>28</sup> As a result, other non-employment adjustments such as

<sup>27</sup> Cooper, Preston. December 18, 2015. “What the Card-Krueger Study Tells Us about the Minimum Wage.” Foundation for Economic Education.

<sup>28</sup> Fielder, M. April 2022. “What Does Economy-Wide Inflation Mean for the Prices of Healthcare Services (and Vice Versa)?” USC-Brookings Schaeffer Institute for Health Policy <https://healthpolicy.usc.edu/brookings-schaeffer/what-does-economy-wide-inflation-mean-for-the-prices-of-healthcare-services-and-vice-versa/>

reduced access, lower business profits, and quality reductions, may be the principal mechanism by which businesses cover the resulting higher labor costs.

This short run economic impact analysis focuses only on employment effects and ignores other potential non-labor economic reactions resulting from the minimum wage such as increased prices, reduced profits, and declines in quality or access. While this economic study does not attempt to estimate the impact of the minimum wage on these other economic variables, it should be noted that these variables may be negatively affected as a result.

## LONG RUN CONSIDERATIONS

The above impacts were calculated using short run reaction estimates before any longer run adjustments to the minimum wage increase are made that may reduce industry employment such as closure and relocations of businesses as well as workers retirements and quits whose positions are not rehired. Similar long run employment adjustments are not estimated in this report due to lack of empirical data estimating long-term reactions with employment prohibitions in place similar to the ones in the proposed measure.

The long run is the most policy relevant period of time. This section will review a number of long run considerations with the aim of providing policymakers and the general public with a potential glimpse into what the future may hold if the Initiative Measure were implemented.

### The Potential Impact of the Minimum Wage Increase on Current Employment Figures

The longer run may include some losses of currently employed workers in the covered private health care industry due to the minimum wage increase. These losses would be the result of actions taken by businesses such as relocation and closure as well as decisions not to rehire workers lost to retirements or job quits. On the other hand, the minimum wage may result in increased attraction of employees into the occupations subject to the minimum wage increase as well as decreased turnover. As a result of both the minimum wage increase's potential negative and positive effects on long run employment, the long-run net impact on jobs in the industry is ambiguous.

### The Potential Impact of the Minimum Wage Increase on Future Employment Growth

Research has found that the employment effect of a minimum wage increase may be more pronounced in terms of new employment growth compared to changes in current employment levels.<sup>29</sup> Minimum wage increases have been found to decrease net job growth, mostly through the effect on job creation by expanding businesses. These unseen employment losses compared to what otherwise would have been take place as new businesses do not open, some businesses exit, and existing businesses do not hire as many employees as they otherwise would have without implementation of a minimum wage increase. Reductions in future employment growth in the private healthcare industry below what otherwise would have been added would negatively impact future labor earnings, economic output, and local tax revenues. As a result, these invisible job losses represent an opportunity cost in terms of foregone economic activity that should be considered a risk of the proposed minimum wage increase.

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<sup>29</sup> Meer, J., & West, J. 2016. "Effects of the Minimum Wage on Employment Dynamics." *Journal of Human Resources*, 51(2), 500-522.

### Impact on Business Exits and Entry

The proposed increase in the healthcare minimum wage may lead to increased business exits out of the city's health care industry due to both relocation to other jurisdictions as well as permanent business closures. Research suggests that all else equal, increases in the minimum wage serve to reduce business value and profitability for affected businesses. Reduced business profitability increases the likelihood of business exit from a jurisdiction, particularly the exit of financially weaker businesses.

However, it is possible that the affected health care sector may be less vulnerable to business exit as the result of a minimum wage increase than other industries are. Furthermore, healthcare facilities will not all face the same risk of exit with some facility types perhaps being significantly less likely to exit the city than others or to do so further into the future. Nevertheless, the industry risk assessment provided in **Section 4** indicates that profitability in the city's health care industry is relatively low while labor intensity is relatively high. This indicates that implementation of the Initiative Measure will likely put some businesses at increased risk of closure or relocation.

An increase in the minimum wage also has the potential to decrease incentives for new businesses to relocate to the affected industry from other jurisdictions or to open up in the jurisdiction. Research has found that minimum wage increases do in fact deter new businesses from locating in an area implementing a minimum wage increase. This deterrence is particularly strong for businesses in industries that rely on workers with low levels of education who are subject to minimum wage laws.<sup>30</sup> As a result, implementation of the Initiative Measure may lead to reduced entry into the covered private health care sector.

### The Initiative Measure's Prohibitions and Non-Labor Impacts

The Initiative Measure language prohibits covered employers from adjusting to labor cost increases resulting from the minimum wage increase by reducing premium pay rates, reducing employee benefits, reducing work hours, laying off employees, or increasing charges for parking, work-related materials, or equipment. However, it is likely that enforcement of the measure's prohibition's will be imperfect and may be costly.

It is extremely difficult to conclusively prove that the minimum wage increase is the motivating factor in an employer's decision to respond to the minimum wage in any of the Initiative Measure's prohibited ways. Employment reactions such as layoffs, reduced work hours, or reduced benefits may be undertaken directly or indirectly due to the minimum wage without being able to prove they are directly related to the minimum wage increase.

These enforcement limitations may serve to reduce the effectiveness of the measure's prohibitions, thus making them less constraining than policymakers initially intended. As a result, in the long run, business reactions may include a significant number of prohibited adjustments.

Spending on enforcement represents an economic cost that would otherwise not have been incurred by the city. This enforcement cost will need to be covered by the city taxpayers through either increased

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<sup>30</sup> Rohlin, S. M. 2011. "State Minimum Wages and Business Location: Evidence From a Refined Border Approach." *Journal of Urban Economics*, 69(1), 103-117.

taxes, reduced quality or quantity of other city provided services, or some combination of the two. If the Initiative Measure is implemented, enforcement costs will serve to reduce some of the benefits from the proposed minimum wage. The City of Long Beach's Financial Management Department has estimated that that enforcement of a similar minimum wage increase will cost the city approximately \$1.2 million per year. The City of Baldwin Park is significantly smaller with fewer covered facilities and affected employees. As a result, city enforcement will likely be less than Long Beach's estimate.

There are two possible alternatives to city enforcement that, while not costless, will disperse costs to a wider population base and may be more efficient and therefore lower cost.

- **County Enforcement:** The County of Angeles may alternatively be the government entity tasked with enforcement of the healthcare minimum wage law if it is enacted. The County may already have an enforcement department in place that can be leveraged. Expansion to enforce Baldwin Park's proposed minimum wage increase may therefore be relatively low cost compared to city enforcement.
- **Multi-City Collaboration:** Cities in the Los Angeles region implementing a similar healthcare minimum wage increase may choose to collaborate and jointly set up an enforcement mechanism. This option has the potential to increase efficiency by consolidating enforcement responsibilities which may cut down on duplication of certain tasks or in hiring for certain staff roles.

Effective enforcement of the Initiative Measure's prohibitions will likely result in adjustments to other non-labor variables that would not otherwise have happened, such as price increases, lower profits, healthcare quality declines, and healthcare access declines. The increased labor costs associated with the minimum wage increase will need to be paid somehow and by someone. Trying to prohibit one type of economic adjustment, in this case employment adjustments, will result in an augmentation of other reactions that are not prohibited. As a result, instead of spreading adjustments in many ways which include employment, adjustments will be more concentrated in certain unprohibited changes such as in reduced profits or quality reductions.

### Potential Spillover Effects to Other Industry Sectors

The proposed minimum wage increase may result in spillover effects to other industry sectors that compete for the same low-wage labor pool as the covered healthcare facilities. The proposed minimum wage increase for covered private healthcare workers may serve to increase the wages of healthcare workers in the non-covered side of the industry whose employers will need to compete for with the covered facilities. This may result in an associated increase in labor income for many of these affected workers and therefore increased labor costs to their employers who may adjust by laying off workers, reducing benefits and hours, increasing prices to customers, and exiting the jurisdiction. In addition to spillover effects in the non-covered healthcare sector, the proposed minimum wage increase may result in spillover effects to other non-health care industries that may now need to pay higher wages for positions such as security guards and janitorial staff in order attract workers. While this spillover effect is not quantitatively analyzed in this report, policymakers should consider the potential impact on workers, businesses, and customers.

## 6. Stakeholder Viewpoints

To understand the perspective of key healthcare stakeholders in the region, LAEDC engaged with leaders from the SEIU-UHW, the proponent of the Initiative Measure, and the Hospital Association of Southern California (HASC), an organization which has urged the Baldwin Park City Council to not pass the Initiative Measure as it stands. These discussions guided by a questionnaire, which queried participants on sentiments about the minimum wage initiative, asked about perceived benefits and risks, and provided an opportunity for open-ended feedback. This section shares insights from these discussions, along with other statements made by the two stakeholders.

The Initiative Measure was brought forth by SEIU-UHW, a labor union representing more than 100,000 healthcare workers, including many unionized healthcare workers in Baldwin Park. As a result, SEIU-UHW are strongly in favor of the initiative and believe that the ordinance should be adopted by the City Council. SEIU-UHW representatives stated that the reason for the minimum wage increase was twofold: increasing the minimum wage not only provides healthcare workers with the wage that they deserve, but it will also address the understaffing crisis at many hospitals. The representatives shared that the Initiative Measure came about as a way to address the needs of healthcare workers in the wake of the COVID-19 pandemic, where the union often heard from workers about difficult working conditions, staffing shortages, and worker burnout. In crafting the language for the Initiative Measure, they initially sought to include all hospitals but were unable to mandate an increase in wages at public facilities for legal reasons, however they hope that the post-Initiative Measure labor market puts pressure on these employers to raise their wages as well.

HASC has been a vocal opponent of the Initiative Measure; they work in partnership with the California Hospital Association, which is affiliated with the California Association of Hospitals and Health Systems, the sponsor of the “No on the Los Angeles Unequal Pay Measure” campaign. **In May 2022, HASC asked members to formally join the campaign to oppose the proposed ordinances.** The messaging around the campaign has stated that the proposed ordinances are **“inequitable, arbitrary, and discriminatory” for the limited scope of the covered facilities, that they “deepen inequities... and jeopardize access to care” by creating workforce shortages at non-covered facilities, and that they would “increase costs to consumers and patients” by increasing labor costs in covered facilities**, with the idea that hospitals will pass costs onto consumers. A representative from HASC shared that “the patchwork quilt of proposed wage ordinances upsets the apple cart and will have ramifications beyond a city’s boundaries,” while another urged the Baldwin Park City Council to “look at the flaws of the current language and perhaps sit down with all of parties involved and discuss moving forward with something that makes sense like other minimum wage increases have.”

### PERCEIVED BENEFITS AND RISKS

Both parties were asked about how impactful, from very impactful to not at all impactful, a list of perceived benefits and perceived risks would be on the health care industry. As expected, SEIU-UHW and HASC had different views on the impact of the Initiative Measure.

**Both parties were asked about these potential perceived benefits:**

- Improving the morale of workers providing healthcare services at private healthcare facilities
- Improving the morale of low skill/low wage workers not providing healthcare services at private healthcare facilities
- Improving the livelihood of workers providing healthcare services at private healthcare facilities
- Improving the livelihood of low skill/low wage workers not providing healthcare services at private healthcare facilities
- Reducing job turnover and defer retirements among workers at private healthcare facilities
- Attracting workers providing healthcare services to private healthcare facilities
- Increasing the bargaining power of workers in private healthcare facilities
- Reducing the wage gap in terms of race/ethnicity and gender across the healthcare industry

SEIU-UHW representatives believed that each of these perceived benefits would be very impactful within the health care industry. A key benefit is the impact the Initiative Measure will have on reducing turnover, deferring retirements, and attracting workers, this will have benefits that precipitate from it, such as improved morale due to proper staffing levels. Additionally, representatives shared that the wage increase represents a life-changing wage for many low skill, low wage positions, leading to a big impact in their morale and livelihood. Representatives also stressed that they are seeing the perceived increase in bargaining power occur, and that this empowers all workers in the industry, not just those who are unionized under SEIU-UHW.

Meanwhile, HASC did not believe the perceived benefits would be very impactful, with some of the benefits being not at all impactful. Representatives from HASC voiced that morale could be negatively impacted by the measure for those making more than the proposed minimum wage. They asserted that some of these workers may be disgruntled by the increase in pay for low skill, low wage jobs, as they felt that they invested time and money in education to reach their current rate.

**Next, the representatives were asked how impactful the following perceived risks would be:**

- Increasing the labor costs for private healthcare providers
- Increasing the healthcare costs for patients
- Creating a competitive disadvantage for private healthcare facilities
- Reducing future growth in working hours or available jobs for private healthcare workers
- Reducing future growth in working hours or available jobs for lower skill/lower wage workers at private healthcare facilities
- Decreasing the morale for workers at private healthcare for those currently making close to \$25 per hour
- The closure, exit, and/or decreased entry of new and relocating private healthcare facilities
- Creating worker shortages for public healthcare facilities and other industries

The representatives from SEIU-UHW believed that all of the impacts would be not at all impactful: while they did not refute that the risks might occur, they did not believe that those risks would have any impact on the industry. For example, they accepted that labor costs will increase at covered facilities but argued that the hospitals should be able to pay those increased labor costs without passing them onto consumers. Additionally, SEIU-UHW believed that it won't hamper future growth in working hours or jobs and felt that it would not decrease morale for those making around \$25 per hour. Due to the financial stability of hospitals, SEIU-UHW representatives did not believe that it will lead to hospitals exiting or not entering Baldwin Park. Finally, they pointed to the high wages at other service job opportunities in the region and stated that the worker shortages are not widespread.

On the other hand, the HASC representative felt that the perceived risks would have a much greater impact than the perceived benefits. The representative particularly focused on the increased labor costs, which they said already made up around 50 percent of the total costs for the hospital industry, with wages expected to rise for both those making under \$25 per hour and those making slightly above that amount, otherwise the latter group would see a decrease in morale; it is not understood to what extent these costs would be passed onto patients, according to the representative. Healthcare reimbursement by government payors, which represents the majority of patients seen by hospitals, set their reimbursement rates without regard to labor costs imposed by local governments as they are calculated on a national or state-level. While hospitals were unlikely to cut healthcare workers in advance of the Initiative Measure being enacted, due to the staffing needs of hospitals, the HASC representatives stated that hospitals may cut back in other areas, like employing fewer security guards or janitors, which could affect hospital safety and the quality of care. The HASC representative asserted that another likely offset will be on capital expenditures, such as reduced investments in new technology and treatment options, which could have a negative impact on patient care in the long run.

Ultimately, the SEIU-UHW representatives believed that the perceived benefits outweighed the perceived risks of the Initiative Measure, while the HASC representative felt the opposite. SEIU-UHW representatives believed that the Initiative Measure would solve the staffing crisis at hospitals while rewarding healthcare workers for their continued commitment to patients over the course of the pandemic, and by doing so, improve both the access to and quality of care in hospitals in Baldwin Park. Meanwhile, the HASC representative urged caution about the unknown spillover effects of the ordinance and the impacts it may have on non-covered facilities and other industries; the HASC organization has labeled the initiative "deeply flawed and inequitable."



### Testimonial from SEIU-UHW

“Setting a healthcare worker minimum wage is a big step towards fixing the staffing shortages, burnout and overwork that we are all facing. Our employers refuse to take serious action to fully staff our facilities and are always looking to cut wages and benefits. The minimum wage helps us fight back: raising wages from the bottom puts pressure on employers to raise wages for all of us; it helps to retain workers who are considering leaving healthcare and recruit new ones — an critical part of fixing staffing shortages; it sets a wage standard that puts us in a strong position when we bargain our next contract; it’s tied to inflation, so if the cost of living keeps rising, wages will too

Los Angeles County is one of the most expensive places to live in the nation. According to the MIT Living Wage Calculator, the living wage in a Los Angeles County household with two adults and two children is \$30.73 an hour for each adult. For a single parent with one child the living wage is \$44.57 an hour. With the current minimum wage at \$15, far below the living wage, families are under tremendous pressure to make ends meet. Inflation is at a 40-year high and workers face significant financial challenges paying for food, gas, childcare, and other expenses. Raising the minimum wage for healthcare workers will positively impact workers and their families, will strengthen the healthcare system by reducing shortages and worker turnover, and will improve the economy by giving workers more buying power.”

### Testimonial from HASC

“The Hospital Association of Southern California is strongly opposed to the proposed ordinance that would set new arbitrary pay requirements for some health care workers in some health care facilities in Baldwin Park, while excluding hundreds of workers doing the same jobs at health care facilities including community health clinics, Planned Parenthood clinics, nursing homes, medical centers, and more. We agree health care workers are heroes, but this ordinance is deeply flawed, inequitable and will hurt workers and patients in Baldwin Park.

Our research found that the measure would exclude 78% of health care facilities in Baldwin Park and research from the Berkeley Research Group confirmed that 85% of health care workers in the city would be excluded.

The ordinance would exacerbate workforce shortages and staffing challenges for community clinics by setting inconsistent wage scales and driving staff away from clinics to other providers. This will lead to workforce shortages at smaller clinics and public health care facilities, jeopardizing access and quality of care for Baldwin Park’s most disadvantaged and already underserved communities, including patients with government insurance as well as the under- and uninsured.

Additionally, the ordinance could deepen inequities in our health care system. The ordinance could force clinics, hospitals and other providers in the city to cut back services or even close, putting patients at risk and forcing them to travel farther for vital services like maternity care, behavioral health, cancer care, and more.”

## 7.Key Findings and Considerations

The final section of the report summarizes the study's key findings and includes a number of considerations for policymakers.

### KEY FINDINGS

- Healthcare services industries in Baldwin Park have an average gross operating surplus of 5.5 percent, significantly lower than the average across all industries of 16.5 percent.
- Healthcare services industries in the City of Baldwin Park face higher labor costs than other industries. On average, industries in the city as a whole have a labor cost intensity of 33.8 percent of total output while the average across all healthcare industries is 56.0 percent of total output.
- An estimated 14 to 29 jobs may be lost in the short run due to the proposed minimum wage increase.
- The estimated net short run increase in labor income resulting from the proposed minimum wage is \$6.6 - \$8.2 million.
- In addition to the minimum wage increase's impact on employment and labor income, there are possible unintended economic consequences that may result in terms of higher prices, reduced access, lower business profits, and quality/access reductions.
- In the long run, the minimum wage increase may result in some losses of currently employed workers in the private healthcare industry as well as job growth below what otherwise would have occurred.
- It is also possible that in the long run the minimum wage increase will result in increased attraction and reduced exit in the impacted occupations, accompanied by an increase in labor quality which will dampen negative labor demand effects.
- SEIU-UHW strongly believe that the perceived benefits of the minimum wage will outweigh the perceived risks, meanwhile the HASC representative disagreed with that statement.
- A representative from HASC felt that the increase in labor costs associated with the minimum wage hike will largely be paid for by sacrificing access to, quality of, or investment in healthcare services. On the other hand, the SEIU-UHW believes it could and should be funded from hospital profits.

### CONSIDERATIONS

1. Policymakers should consider and weigh the potential costs and benefits that may result due to implementation of the proposed minimum wage increase.
2. If the proposed minimum wage is implemented, the City of Baldwin Park should commission a five-year study reviewing the impact of the minimum wage on healthcare business establishments, healthcare workers, patients, and government revenues.

# Appendix

## METHODOLOGY

The estimates in the report assume real wages that are not eroded by inflation as a simplifying assumption. Since the measure language states that the minimum wage would be adjusted for inflation periodically and will therefore be expected by future looking economic actors, this assumption is not expected to significantly affect the estimates.

### Estimate of the Short Run Economic Impact of the Minimum Wage Increase on Industry Employment

Employment losses or other compensating adjustments may take place before the minimum wage increase goes into effect as well as in the first year when waiver can be claimed by businesses on the margin. No language in the measure contains a prohibition to making employment adjustments in anticipation of a new higher minimum wage during that period.

Data Used:

1. Lightcast Q3 2022 dataset for 2021 occupation data that contains a percentile earnings breakdown for all occupations in zip code 91706 (proxy for Baldwin Park)
2. Lightcast Q3 2022 dataset for 2021 data on the distribution of occupational employment within each industry in zip code 91706 (proxy for Baldwin Park) healthcare industry.
3. Data Axle April 2022 data from Esri Business Analyst Online on the number of health care industry establishments and industry employment figures.

The three-digit NAICS codes that would be affected by the proposed minimum wage increase are:

- NAICS 621: Ambulatory Health Care Services

NAICS 621 includes covered dialysis clinics such as DaVita and Advanced Dialysis Clinic. Around 7.6% of employees in NAICS 621 were identified as being employed by covered facilities. Employment figures were adjusted to reflect the fact that only 7.6% of employees in NAICS 621 are employed by a covered facility.

- NAICS 622: Hospitals

NAICS 622 includes the Kaiser Permanente and Kindred hospitals. 100% of hospital employment in Baldwin Park was identified as being a covered facility.

- NAICS 466: Health and Personal Care Stores

Covered facilities in NAICS 466 include Kaiser Permanente pharmacies, as they are a part of an Integrated Healthcare Delivery System. Change in employment and wages for this sector was only performed for employees of these covered facilities.

Staffing patterns, the percentage employed in each occupation within an industry, were used to understand the occupational composition of the Baldwin Park health care industry. For each industry, this occupational composition was then joined to a percentile earnings breakdown for each occupation (across

all industries, due to data availability). The staffing patterns percent breakdown was multiplied by the total employment in covered facilities by industry, from Data Axle, to understand the number of employees in each occupation that were in a covered facility.

Any occupation percentiles not subject to the minimum wage increase (anything \$25 per hour or above) or where data was unavailable were assumed to have no change in employment. We assume these employment figures will not be affected by the minimum wage, which is a conservative assumption that will likely reduce the negative impact on employment in the private health care industry as a result of the minimum wage increase, below what it otherwise would be.

We calculated the earnings percentage increase for each occupation earnings percentile subject to the minimum wage increase, at 10 percent, 25 percent, 50 percent, 75 percent, and 90 percent. For the first four percentiles, we assume that those within that percentile (under or at the percentage cutoff of the workforce) make that percentile wage. For the 90<sup>th</sup> percentile, we assume that those above the 75<sup>th</sup> percentile up to the 100<sup>th</sup> percentile make that 90<sup>th</sup> percentile wage. We are assuming that employees earn their occupation percentile's wage before the minimum wage is implemented.

We then calculated how many employees (using Data Axle employment figures scaled to staffing patterns from Lightcast) are in the remaining earnings percentiles that will be subject to the increase.

We use low and high empirical short run response estimates<sup>31</sup> (elasticities) to calculate the estimated percentage change in employment, assuming a low response (-.05 elasticity) and high response (-.1 elasticity). Then, we calculate the percent change in labor quantity as the percent change wages time the elasticity. We make the simplifying assumption that this response holds for the range of increase being considered in this analysis.

This response likely underestimates the employment loss response specific to low skilled labor lending a conservative bias to the estimates to follow. On the other hand, this response would be lower for an industry where consumer demand does not significantly response to the price of goods or services offered such as the health care industry.

We then used IMPLAN to calculate the economic impact of lost employment using industry employment events for a region made up of Baldwin Park Zip Code 91706. IMPLAN Industry Codes 486, 490, 407 were used for the analysis (which proxy for the affected 2017 NAICS codes).

### Potential Impact on Labor Income in the Health Care Industry

We assume that all employees making below the minimum wage who keep their jobs make the \$25 per hour minimum. In this analysis, to get yearly total private healthcare labor income after a minimum wage increase, we multiply the number of employees for each occupation percentile who did not lose jobs as a result of the minimum wage that were previously making below \$25 per hour by the new \$25 per hour wage and then assume these workers work 38.2 hours per week, every week to get the yearly total (sum all occupations). This approach serves to overestimate the income increase since we are not factoring in

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<sup>31</sup> Sorkin I. 2015. "Are There Long-Run Effects of the Minimum Wage?" *Rev Econ Dyn*. 2015 Apr 1;18(2):306-333. doi: 10.1016/j.red.2014.05.003. PMID: 25937790; PMCID: PMC4415654.

the one-year waiver which will mean that some remaining employees will not be making the new minimum wage in the short run.

BLS Labor Force Statistics from the U.S. Current Population Survey indicates that 38.2 hours per week is the average weekly work hours in Education and Health Services.<sup>32</sup> We assume that work hours are unaffected in the analysis.

This calculation will be made both for the high and low elasticity scenarios above. Assume this income increase holds for the foreseeable future although this may change if more employees in occupations subject to the minimum wage increase enter or exit as a result.

We are assuming that employees earn their occupation percentile's wage before the minimum wage is implemented. We calculated the increase from the percentile wages under \$25 to the new minimum wage for all workers in each occupation to get labor income change. Then, we calculated the economic impact of the change in labor income using IMPLAN.

We are assuming that employees earn their occupation percentile's wage before minimum wage implemented. For the baseline case before the minimum wage, we multiply the existing private healthcare employee numbers in each percentile by that percentile wage for each occupation and add up to get total labor earnings.

We then compare the sum of estimated labor earnings before and after the minimum wage to find the policy's impact on total labor earnings.

We then used IMPLAN to calculate the economic impact of increased income using industry employee compensation events for a region made up of zip code 91706 (a proxy for Baldwin Park) using IMPLAN Industry Codes 486, 490, and 407.

### Industry Risk Assessment

The data used to conduct this analysis is the Industry Economic Accounts produced by the Bureau of Economic Analysis of the Department of Commerce (specifically, the Make and Use tables) as estimated and aggregated by the IMPLAN Group, LLC in its latest software release for the 2019 calendar year. The economic region of interest is the City of Baldwin Park defined by zip code (91706).

Healthcare services in this section of the report is defined as: Ambulatory Health Care Services, which includes offices of physicians, dentists and other healthcare practitioners, outpatient care centers, medical and diagnostic laboratories, home health care services and other ambulatory services (NAICS 621); hospitals (NAICS 622); and nursing and residential care facilities (NAICS 623).

Risk exposure for healthcare services industries in the form of labor costs and gross profits are compared as a share of revenues. This risk exposure of healthcare services industries is evaluated against each industry's gross operating surplus, which points to the industry's ability to absorb higher costs of inputs such as labor.

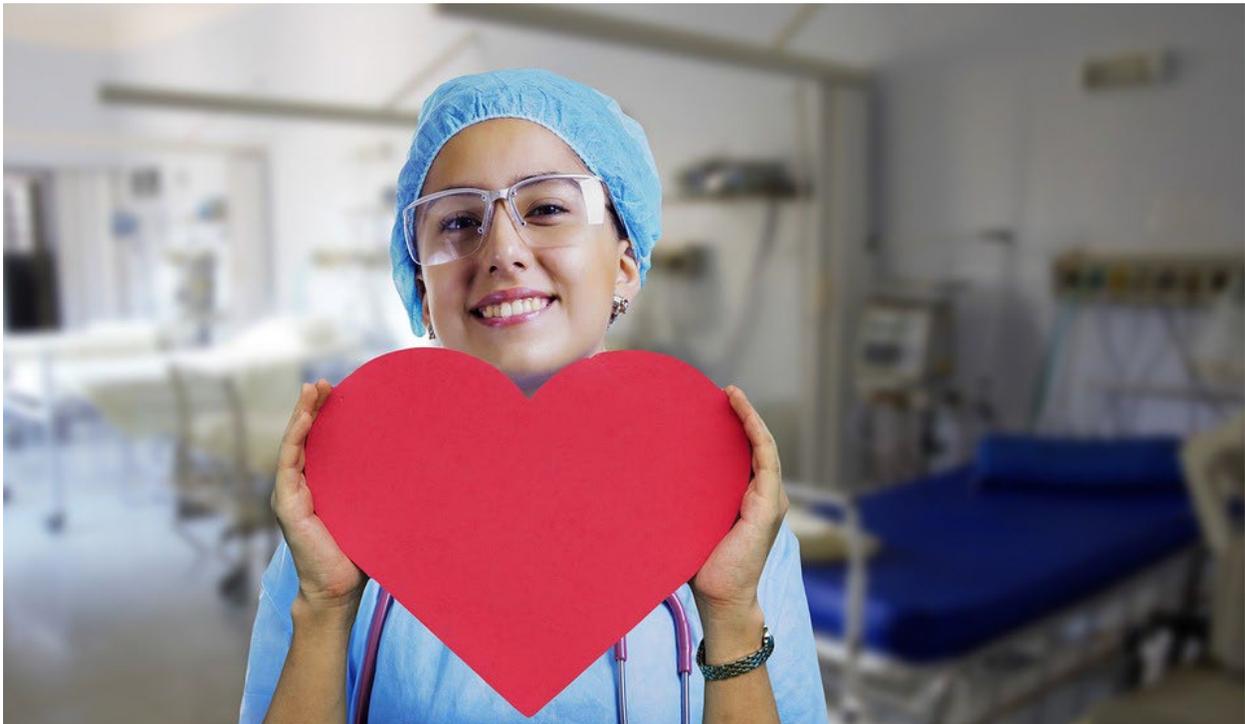
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<sup>32</sup> <https://www.bls.gov/cps/cpsaat21.pdf>

Each healthcare services industry's *labor cost intensity* is estimated as labor income as a share of gross operating revenues to provide an indication of its ability to pass the higher costs of inputs through to its customers. The higher this margin, the more likely the user industry will be unable to absorb higher labor costs. If accompanied by low profit margins and they are unable to increase the prices of their goods and services, they may face an existential risk.

## BALDWIN PARK COALITION LETTER

A broad coalition representing public and private hospitals and health care facilities, seniors, community organizations, businesses and health care workers, composed a letter writing in opposition to a potential ordinance that would increase the minimum wage for some health care workers in some health care facilities in Baldwin Park. That letter immediately follows on the next page.





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