

Increasing the Minimum Wage

Testimony provided by:

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Before

Senate Labor & Industry Committee
May 5, 2015

To provide you with a perspective of the impact of raising the minimum wage from \$7.25 to \$10.10, a 39% increase, here is an example of how it would affect my company and I am confident every other small to mid-size company in PA.

Woodloch Properties is a mid-size hospitality company with total revenue in 2014 of \$62,000,000.

Woodloch is the largest employer in Wayne and Pike Counties, with a total of 1,133 individuals on our team including tipped employees. Our payroll before taxes and benefits in 2014 was approximately \$22,600,000.

Our 2014 combined profit from all divisions of our company was approximately \$1,500,000.

Only 6 members of our staff are paid the minimum wage and only 55 earn \$8 or less. In total, we have 320 employees (28%) who make less than the newly proposed \$10.10 minimum wage. Therefore, you might think that this increase would not have a significant negative impact on our company, but that is definitely not the case.

Raising the compensation of the 320 members of our team who are now paid less than \$10.10/hour would cost our company approximately \$340,000 before taxes. But that is just the tip of the iceberg.

An increase in the minimum wage of this magnitude would cause shock waves throughout our company. The ripple effect would definitely kick in; all staff would expect that they deserve to keep a differential between themselves and the entry level minimum wage staff, and their argument would be valid: they have more training, more experience, and have committed more of their time to our company and therefore have more value. At a bare minimum I would expect to increase the non-management staff, currently making \$10/hour or more, by \$1/hour. This increase would equate to \$820,000.

The new minimum wage would also affect our 100 seasonal summer staff, adding another \$80,000 to our annual payroll for our predominantly entry level high school and college staff.

In addition, we would have the impact to the overtime rate caused by the increased minimum wage. In 2014, our company had 63,671 hours of paid overtime, equaling \$1,150,000. We estimate an annual increase of \$70,000 in overtime expense will be created by this 39% raise to the minimum wage.

Finally, our employer's share of FICA taxes and 401K matching would be increased by an estimated \$120,000.

Using our 2014 financials as a basis, we estimate that the total increase to our mid-size company's payroll precipitated by the proposed minimum wage increase to \$10.10/hour would have raised our annual payroll by \$1,420,000.

In essence, an increase in the minimum wage to \$10.10 would have eliminated our net profit in 2014.

Since we are a family-owned business with no outside shareholders, rather than paying dividends, every year we invest our profits back into our business. This has allowed our business to grow from a small boarding house to one of the most highly rated resorts in America. Without this constant reinvestment, we will not be able to properly maintain our property, nor grow the business. The result is: no more new jobs, fewer opportunities for our current team, and the potential for significant lay-offs.

Another point of consideration is that the majority of our staff are eligible to achieve annual bonuses. In 2014 we paid a total of \$275,000 in bonuses to our team. With little or no profit, we would be forced to eliminate this motivating incentive for our staff.

The obvious question is: Why not increase your prices to offset your increased expenses? Unfortunately, given the economy and the competition regionally, nationally and internationally, and the public's ability to

search the internet for the lowest prices, there is not much wiggle room for increased pricing in the hospitality industry. Although we provide our guests with excellent value, we have only been able to raise our rates about 2% per year since 2008.

With a 2% rate increase, we are not even keeping up with the increased costs of food, energy, supplies, or existing payroll. Add to that the ever-increasing costs of Health Benefits (in 2014 \$4.70/hour for all hourly staff working over 30 hours weekly) and you can understand the squeeze that most small and mid-size businesses are experiencing even before a 39% increase in the minimum wage.

There is also discussion about increasing or eliminating the \$2.83/hour Tipped Employee Minimum Wage rate. I believe that there is a serious misunderstanding of this rate by the public. In reality, all employees must earn at least the minimum wage. If a tipped staff member earns less than \$7.25/hour when combining their \$2.83/hour pay rate with their earned tips, then the employer must make up the difference. At Woodloch, our conservative estimate is that, on average, our tipped employees make between \$15-\$18/hour. Clearly there is no need to tamper with the Tipped Employee Minimum Wage.

In conclusion, there are strong arguments both for and against the merits and value of whether there is a need for having a minimum wage at all. However, since we have one, we must administer it prudently. An increase of 39% in one year will have a devastating impact on small and medium sized businesses, who are the major job creators for lower income people in our economy, which will result in lost jobs, fewer hours and diminished opportunities for entry level workers.

My recommendation is that we approve a 5 year plan to raise the PA's minimum wage from \$7.25/hour to \$9.00/hour by 2020. The first increase in 2016 would be \$.75/hour, bringing the rate to \$8.00/hour. Then a 3% increase each year through 2020, which would raise the minimum wage to \$9.00/hour in 2020.

Thank you for the opportunity to express my views on the proposed minimum wage increase. I look forward to our discussion on Tuesday.