

Regional Minimum Wage, Proposed in Senate Bill 7, Is Bad for Small Business; Statewide Raise to \$15 Makes Good Business Sense

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SUMMARY: The minimum wage sets the wage floor across Virginia. It's currently too low to provide a solid floor for businesses, the workforce and the economy. A minimum wage increase should be phased in *statewide*, as passed by the House in HB 395, raising the rate to \$15 by 2025. The amended bill passed in the Senate, SB 7, would introduce needless complexity and growing inequity into minimum wage law by breaking Virginia's statewide minimum wage into regional minimum wages based on median household income – penalizing lower-income regions. The Senate legislation would undercut the consumer spending boost and other benefits of raising the minimum wage for businesses, communities and the economy. It would hurt small businesses in lower-income areas with lower minimum wages. Businesses using lower minimum wage rates would have a harder time hiring employees, see increased turnover and lower productivity, and undermine the customer service that keeps people coming in their doors.

Under SB 7, the minimum wage would increase to \$9.50 on Jan. 1, 2021, \$10.50 on July 1, 2022 and \$11.50 on July 1, 2023. After that, as summarized by The Commonwealth Institute (TCI), “the Commissioner of Labor and Industry would carve the commonwealth into ‘regions’ and establish different minimum wage rates beginning on July 1, 2024. **The region with the highest median household income...would receive a \$1 annual increase to their minimum wage, while every other region — i.e., poorer regions — would receive less.** Based on this formula, the gap between the highest and lowest regional wage would only increase over time... While it's unclear how these regions might take shape, consider this: median household income is highest in Northern Virginia (Planning District 8), where it rises to about \$120,000. That's compared to roughly \$70,000 in the Richmond area and \$62,000 in the Hampton Roads area. For every \$1 increase to the minimum wage in northern Virginia, Richmond would receive 58 cents and Hampton Roads would receive 51 cents.”¹

Looking at areas with even lower household income, for every \$1 minimum wage increase in Northern Virginia, the Roanoke area (median household income \$53,000) could receive about 44 cents, Eastern Southside (\$47,900) about 40 cents, and Southwest Virginia (\$38,000) just 32 cents.²

¹ The Commonwealth Institute for Fiscal Analysis, [A Regional Minimum Wage Would Accelerate Inequality In Virginia](https://thehalfsheet.org/post/190829406528/a-regional-minimum-wage-would-accelerate), Feb. 14, 2020. <https://thehalfsheet.org/post/190829406528/a-regional-minimum-wage-would-accelerate>.

² Data provided by TCI. Roanoke area: Alleghany, Botetourt, Craig, Franklin, Roanoke, Covington city, Roanoke city, and Salem city. Eastern Southside: Dinwiddie, Greensville, Prince George, Surry, Sussex, Colonial Heights city, Emporia city, Hopewell city, and Petersburg city. Southwest Virginia: Bland, Buchanan, Carroll, Dickenson, Grayson, Lee, Russell, Scott, Smyth, Tazewell, Washington, Wise, Wythe, Bristol city, Galax city, and Norton city.

This regionalized approach would hurt small businesses in lower-income areas, not help them. Here are four reasons why:

Workers are Also Customers

Virginia's \$7.25 minimum wage, just \$15,080 a year for full-time workers, leaves many working people without sufficient income to cover even necessities. Workers are also customers – and businesses typically have many more customers than employees. Minimum wage increases boost sales at local businesses as workers buy goods and services they could not afford before. But a regionalized minimum wage would reduce the income gains for workers and communities with lower minimum wage rates. That will produce smaller increases in the local and statewide consumer spending that businesses depend on.

For businesses in the lower-minimum wage regions, the lost consumer spending would really add up. In its analysis of SB 7, The Commonwealth Institute observes, “Northern Virginia would reach a \$15 minimum wage by 2027 in nominal dollars (\$15 will buy less than in 2020 due to the effects of inflation). By then, working people based in Hampton Roads, for example, would already be earning \$1.95 less per hour, or \$4,000 less per year.” In other examples, working people in the Roanoke area would be earning \$2.23 less per hour by 2027, or \$4,600 less per year. Eastern Southside workers would be earning \$2.40 less per hour, or \$5,000 less per year. Southwest Virginia workers would be earning \$2.73 less per hour, or \$5,700 less per year. Now imagine thousands of dollars in lost wages for one minimum wage worker multiplied by many people – year after year. That’s a lot of money customers won’t have available to spend at local businesses in lower-minimum wage regions.

Regional Minimums Would Incentivize Leaving Lower-Minimum Wage Businesses and Communities for Those with Higher Wages

Low pay typically means high turnover. When wages go up, employee turnover goes down. With lower turnover, businesses see reduced hiring and training costs, less product waste, and lower error and accident rates. Businesses benefit from better productivity, product quality and customer service. Lower turnover and increased consumer spending are important factors in offsetting the payroll cost of minimum wage increases.

A system of regional minimum wages changes the turnover dynamic. It would incentivize employees to leave businesses in lower-wage regions for better pay elsewhere and it would incentivize job seekers to work for businesses located in higher-wage regions.

Shortsighted businesses that opt to pay a lower minimum wage would have more trouble hiring, see increased turnover as employees look elsewhere for pay they can live on, and undercut the customer service that keeps people coming through their doors.

Low Minimum Wages Do Not Help Small Businesses Compete

Walmart's current minimum wage is \$11 an hour – that's \$3.75 an hour higher than Virginia's minimum wage, which has been stuck at \$7.25 for a decade. Target pays a \$13 starting wage now and will reach \$15 this year. Costco, Amazon and Whole Foods already start workers at \$15 – more than double Virginia's current minimum wage. Under SB 7, according to TCI

projections, workers outside Northern Virginia would not have a \$15 minimum wage until a decade from now or years later. For the Richmond area it would likely take until 2032 to see a \$15 minimum wage. For the Southwest region it could take until 2043. These very long paths to \$15 and growing regional disparities won't help small businesses compete against big businesses, it will hurt them.

For small businesses to survive and thrive in competition with large corporations and online companies with fast delivery, you have to give customers a reason to come into your store – and keep buying from you. And that depends heavily on customer service, which depends heavily on employees.

Businesses that are more invested in their employees have employees that are more invested in the business. When workers are paid enough to live on they don't have the continual stress of worrying how they will make rent or afford other basics. They have better morale and are more productive. They can afford to stay with the business and develop a better understanding of what customers want. Employees often make the difference between a repeat customer and a lost customer.

Sub-Minimum Wages Would Greenlight Low-Wage Business Model

State government has a vital role to play in setting good standards like a fair minimum wage that encourage better business practices and strengthen the economy, workforce and tax base. A regionalized minimum wage would do the opposite.

It would greenlight many new businesses to follow a low-wage, high-turnover business model. And it would encourage existing businesses in lower minimum wage regions to keep operating that way. That would make it less likely – not more likely – that existing and new small businesses would survive and grow.

Moreover, a regionalized minimum wage would add to payroll complexity for businesses and workers. And it would increase wage enforcement complexity for government.

A regionalized minimum wage system would make managing minimum wage compliance more costly. Instead, public policy should encourage the lower turnover, innovation, and better business practices that come with investing in employees. With a higher-wage, lower-turnover model, owners and managers can focus more on business improvements instead of spending time and money to replace people who can't afford to stay.

Margot Dorfman, CEO of the U.S. Women's Chamber of Commerce:

“We support raising Virginia's minimum wage to \$15. It will help small businesses like my members by increasing consumer spending and strengthening Virginia's workforce. Raising the minimum wage to a more realistic level helps level the playing field for businesses like my members who treat their employees fairly and are invested for the long-term in local communities.”

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