



Minimum Wage Increases Unintended Impact

MINIMUM WAGE is a hot button issue across the country and appears to be getting hotter in Delaware. In 2014, the Delaware General Assembly passed a minimum wage increase from \$7.75 to \$9.25. While we have not yet seen the full effects of this bill – \$9.25 will be required by Oct. 1, 2019 – this past 151st General Assembly saw the introduction of Senate Bill 105, an act to increase the minimum wage in Delaware to \$15 by 2024. The bill ended in the Finance Committee during this legislative session but remains live during the next legislative session. Understanding the impact a bill like Senate Bill 105 would have across Delaware industries is therefore vital for Delaware business owners, customers, and lawmakers.

During discussions of Senate Bill 105 in June, a handful of business owners explained the unique issues this legislation would have in their industries. One such community, the nonprofit sector, was represented by Verna Hensley, the Vice President of Public Affairs for Easterseals Delaware & Maryland Shore Inc. Hensley spoke about the need to renegotiate state

contracted rates for nonprofit providers if minimum wage were to change.

“The State sets the reimbursement rates for the contracted services... nonprofit providers are greatly constrained in what wage they can offer the direct care workers. For example, the contracted rates for our day services for adults with intellectual disabilities only support a wage of \$9.50 an hour,” said Hensley.

This allows for the majority of Easterseals employees to be paid more than the current minimum wage, as well as earning other workers’ benefits. However, if the state minimum wage was adjusted without an adjustment to state contract rates, Easterseals and other nonprofits would have to fundraise or pull resources from other areas. Further, because their funding comes through state contracts, nonprofits cannot pass increased costs along to customers through increased prices. Hensley fears that this would lead to a significant impact on Easterseals and other nonprofits’ ability to meet a growing need for services.

Robert Bird, the founder and owner of Home Instead Senior Care in Delaware, and serving President of the Delaware Association of Home and Community Care, has similar concerns on the need to adjust other state legislation if minimum wage were to change. What legislators may not be aware of, Bird explained, is the growing gap in the labor market for homecare workers. Delaware already has a much older population, and with such high demand but no growth in the supply of labor, the cost of supply of homecare workers keeps increasing. A \$15 minimum wage would only exacerbate this problem; exponentially growing labor costs would be challenging for businesses to absorb and would result in higher prices for service. The problem becomes more complicated with many homecare patients receiving Medicaid. Bird is concerned that if the state budget allotted to Medicaid is not renegotiated, there will be many families facing burdensome homecare costs they cannot afford. On the other hand, if the state budget is renegotiated, there would have to be a yearly increase in state taxes or cuts made to other state programs.

Labor supply is a growing scarcity in not only the homecare industry, but also the hotel industry. Given that entry-level hotel work is often very labor intensive, William Sullivan, managing director of Courtyard by Marriott at University of Delaware, says that there is a natural scarcity, and in turn, economic push for higher wages for entry-level hotel workers. This same concept is also reflected in Delaware: unemployment is currently very low and has led to higher wages because labor supply is so competitive. Therefore, Sullivan thinks that natural supply and demand should be left alone to do its own work. While Courtyard by Marriott at University of Delaware has not taken a strong position either way – in fact with larger businesses like Amazon and Christiana Care paying higher wages, Courtyard by Marriott is attempting to follow suit – Sullivan believes that \$15 would be a shock to the system. Like many businesses, it would be unlikely that hotels could absorb growing labor costs, resulting in higher prices. But hotels face a unique challenge: the new popularity of unregulated online marketplaces and hospitality service brokerage companies, like Airbnb. The popularity of these online marketplaces, in combination with higher hotel room prices, would lead to a decrease in demand for rooms. Further, hotels determine worker hours by how many rooms will be filled, so a decrease in demand for rooms will not only hurt hotel business in general but will specifically target entry-level hotel workers.

Businesses are sympathetic to issues a \$15 minimum wage aims to solve; many are already making efforts to make up for what minimum wage may lack. The businesses mentioned here either pay most or all employees more than the current minimum wage. They also offer benefits like paid training to encourage workforce development. However, many businesses are wary of the unintended consequences a \$15 minimum wage would have on Delaware business owners, consumers, and taxpayers. ■



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