Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Phil Mendelson** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**May 31, 2013**
SUBJECT:	**Fiscal Impact Statement – "Large Retailer Accountability Act of 2013"**
REFERENCE:	**Bill 20-62 – Committee Print, shared with the Office of Revenue Analysis on May 30, 2013**

Conclusion

Funds are sufficient in the FY 2013 budget and the proposed FY 2014 through FY 2017 budget and financial plan to implement the bill.

Background

The bill requires large retailers to provide employees an hourly compensation package with a value of no less than the living wage, which currently stands at $12.50 per hour in the District and increases each year as delineated in the bill. The compensation package may include benefits[1] as part of the value, and the bill allows flexibility to the retailer on how the benefits are valued.

The bill defines a "large retailer" as any business that operates a retail store located within the geographic boundaries of the District where the parent company's gross revenues total $1 billion or more on an annual basis. Franchisees are not included in this definition, and large retailers operating in the District at the time the bill becomes effective are exempted from its requirements for four years.

The Mayor is tasked with providing a notice suitable for posting by large retailers in the workplace informing employees of the current living wage and benefits rate and of their rights under District

[1] Benefits for this purpose are defined as payments made by the large retailer for any *bona fide* fringe benefits paid directly to an employee or to a third party on behalf of an employee or employee's family, such as benefits related to health care, retirement security, disability, training and education, or paid leave, but excluding any payments that are deducted from an employee's wages or otherwise reimbursed by an employee, or that are required by any federal or District law.

law, and also with monitoring compliance by inspecting retail establishments and reviewing payroll records.

Financial Plan Impact

Funds are sufficient in the FY 2013 budget and the proposed FY 2014 through FY 2017 budget and financial plan to implement the bill. The bill's impact on the operations of the District of Columbia Government during the financial plan period is minimal: the Department of Employment Services can conduct the necessary enforcement of the bill within its existing budget during the four-year financial plan period.

This legislation is likely to have a fiscal impact on the District beyond the four-year financial plan period. With more retail outlets subject to the law, the District will likely incur additional enforcement costs, though these are difficult to estimate today. Economic effects in the retail and labor markets in the District, and related fiscal impacts, such as reduction in sales tax revenues from large retailers choosing not to locate in the District, are likely beyond the four-year financial plan period but difficult to project today.

In general, imposing a higher statutory wage on a sector of the District's economy could have real economic and fiscal implications for the District. Preliminary research by the Office of Revenue Analysis suggests that such impacts from this bill would be minimal during the four-year financial plan period, when the bill only covers incoming firms that do not yet have a presence in the District. The bill is likely to only affect a few retail outlets during that time, so the potential for broader economic impacts is limited. Also, the mean wage for employees of large retailers in the District does not appear to be significantly below the living wage requirement in this bill.

One potential labor market outcome of the bill is the reallocation of existing retail workers. Data from the U.S. Department of Labor shows that in 2012, approximately 40 percent of retail workers (identified as cashiers) received more than the bill's prescribed living wage. If these employees are the ones with relatively more experience and skills, large retailers may seek to hire them, leaving less-skilled and experienced workers more likely to work in establishments not subject to the living wage requirements of the bill. The spill-over effects of the bill into the smaller retail labor market are difficult to predict, but unlikely to be significant during the first four years when the bill has a more limited impact.

Given that the bill also covers part-time workers, in the longer term this may be where its impacts are most significant. While evidence on the impact of minimum wage requirements is mixed, it is reasonable to expect that higher wage requirements may be more binding during economic downturns, and may result in fewer hours of employment, or lower benefits, especially for part-time workers. If the bill encourages large retailers to hire fewer workers or to hire more people part-time, this may offset some of the wealth-enhancing potential of the living wage for lower-income workers.

Finally, it is critical to note that the effects of the bill as drafted would not be limited to the retail sector. Any firm with a combined income of $1 billion and with a retail operation in the District would be required to pay a living wage to all of its employees in the District, regardless of employee occupation.