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Raising the Floor: California Increases its Minimum Wage

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For the first time since 2006, California's Legislature passed legislation increasing the state's current minimum wage of \$8 per hour. Governor Brown signed the bill on September 25, 2013.

The new law, Assembly Bill (AB) 10, amends California Labor Code section 1182.12 to require that, beginning on July 1, 2014, the state's minimum wage becomes \$9 per hour. Eighteen months later, on January 1, 2016, the minimum wage in California will increase to \$10 per hour.

The bill was introduced by Assembly member Luis A. Alejo (D-Salinas), with final week co-authorship from Speaker of the Assembly John A. Pérez (D-Los Angeles) and Senate President Pro Tem Darrell Steinberg (D-Sacramento).

Unless other states raise their minimum wages in the interim, AB 10 will make California's the highest state minimum wage in the United States.¹

How Did This Happen?

In 2011 and 2012, bills were introduced to raise the minimum wage, but those bills did not make it through the legislative process.

A proposal to increase California's minimum wage usually consists of three components:

- the new wage rates,
- the effective date (or dates) of the increases, and
- whether the rates will be automatically increased with reference to an economic index.

In 2005, the Legislature passed a minimum wage increase that contained an automatic increase provision. That proposal was vetoed by Governor Schwarzenegger. In his veto message,

¹ Keep in mind that more than two dozen California counties, cities, or portions of cities, have their own minimum wages, or "living wages," which can be higher than California's minimum wage. See, for example, Christopher Cobey and Karin Cogbill, [Increased Minimum Wage Is on Its Way: The City of San Jose's New Minimum Wage Ordinance Takes Effect on March 11](#), Littler ASAP (March 7, 2013).

Schwarzenegger specifically objected to the “autopilot” aspect of the bill permitting increases in the minimum wage without legislative action. The following year, the Legislature produced a bill, which Governor Schwarzenegger signed, that had a 75-cent per hour increase the year after the bill was passed, and a 50-cent increase a year later.

As introduced in the Assembly in December 2012, AB 10 provided for step increases in the minimum wage to a maximum of \$9.25 per hour by 2016, with automatic annual increases based on an established economic index thereafter.

The Senate amended the bill twice. In June, the Senate amended AB 10 to delete the automatic indexing feature, and to increase the minimum wage in additional steps to \$10 per hour by 2018. Then, in the last week of the legislative session, the Senate in September again amended AB 10 to decrease the number of step increases to two from four, and shortened the period for the imposition of the minimum \$10 rate to 2016 from 2018. The September Senate amendment also extended the initial date of the increase six months, from January 1, 2014 to July 1, 2014.

AB 10 passed the legislature in its final form on a straight party-line vote, in keeping with most legislative voting in the California Legislature these days. In fact, of the 222 votes cast either for or against this bill on substantive matters by individual legislators, only two legislators, on one occasion each, voted with the opposite party.

AB 10 was opposed by the business community, including the California Chamber of Commerce, which referred to the proposal as a “job killer.” Opponents of AB 10 said that small businesses cannot afford hourly wage increases, and will have to raise prices, cut working hours, or lay off employees. The bill was supported early on by the California Labor Federation and the California Federation of Teachers.

As of now, California has the eighth highest minimum wage in the United States. States or other governmental units having higher minimum wages are Nevada, Connecticut, the District of Columbia and Illinois (\$8.25 per hour), Vermont (\$8.60), Oregon (\$8.95) and Washington state (\$9.19). At this writing, 19 states plus the District of Columbia have minimum wages above the federal minimum wage of \$7.25 per hour.

The Consequences of Raising the Minimum Wage

The bill will affect approximately three million California employees now earning the minimum wage in both full-time and part-time employment in the private and public sectors.

The most obvious immediate effect of the increase in the minimum wage will be wage compression for those employees currently earning between \$8 and \$10 per hour. Employers will have to decide whether those individuals, who may have achieved wage increases in that range due to merit, seniority, or some other combination of circumstances, should be awarded a pay increase that takes their pay above the new minimum wage.

The Choices for Employers

Businesses using minimum wage workers will have choices to make, including any or all of the following: raising prices, taking less profit, cutting hours of employees earning the minimum wage, or cutting the number of minimum wage employees.

It is possible that California’s increase of the minimum wage may cause the cities of San Francisco and San Jose to increase theirs, although to do so would require either legislative action or a vote of residents. Both ordinances have automatic increase features. San Jose’s current minimum wage is \$10 per hour and San Francisco’s is \$10.55 per hour. Those cities’ minimum wages will not be superseded by the state’s action.

Any statutes, regulations, or ordinances based on the current state minimum wage will, of course, be affected by its increase.

What Employers Should Do

1. Employers who have employees earning the minimum wage will need to budget for the July 1, 2014 wage increase.

2. Employers paying part of their work force the minimum wage should consider what response to give those employees now earning over \$8, but less than \$10, per hour, if they ask what will happen to their wages in light of the minimum wage increase.
3. If specific rates of pay are referenced in memos to or for employees, or in employee handbooks, check to see whether these documents need to be amended or updated to reflect the rising rates of pay.

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