**As Wage Debate Rages, Some Have Made the Shift**

Restaurants in Cities With Wage Mandates Adjust Hours Work, Prices and Supplies to Cope

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SAN JOSE, Calif.—As lawmakers in the nation's capital are mired in debate over likely outcomes from raising the federal minimum wage, businesses hit with local wage increases across the U.S. already are grappling with the reality.

A Carl's Jr. franchisee in San Francisco offset the county's higher minimum wage—now $10.74—by using less shortening to make french fries. A White Castle in Illinois cut two jobs to match competitors' costs in nearby Indiana, where the mandated wage is lower. A California pretzel maker pays different wages at mall stores that straddle two cities.

The consequences of a minimum-wage increase cut across everything from the number of hours employees are assigned, to menu prices to how often a drive-through lane is cleaned, according to interviews with more than a dozen businesses. The real-world impacts can vary: Some companies had no difficulties passing along labor-cost increases while other businesses said they might close marginal stores to pare losses.

Such adjustments are rarely captured in the now-sizzling debates over whether a national wage increase would harm the economy or reduce poverty. But as Congress debates lifting the federal minimum wage by nearly 40% in three steps to $10.10 an hour from $7.25, the local mandates are proving there will be no simple way to categorize the range of business impacts.

In part, lawmakers largely have focused on the broadest implications for the U.S. economy. The nonpartisan Congressional Budget Office in February estimated raising the minimum wage to $10.10 an hour would reduce U.S. employment by 500,000 but lift 900,000 Americans out of poverty.

In many cities and states, minimum-wage increases have already complicated the budgeting calculus. Twenty-one states, representing more than half the U.S. population, now mandate pay above the federal rate. Maryland will join them after legislators voted for an increase Monday.

Owners elbow-deep in major and minor adjustments say they only want a level playing field. "The problem with the minimum wage increase is that it was just in San Jose," said Mezcal restaurant owner Adolfo Gomez. He cut employees' schedules and covered the lost hours himself after the minimum wage in the city jumped 25%. "If it was the county or state, we'd all be in the same boat."

For businesses in San Jose, the results aren't entirely negative. Low-wage employers in the city have raised prices and trimmed costs, but some also report improved employee morale and better customer service.

The Pizza My Heart chain raised menu prices 4%, to cover last year's $2 increase in the city's minimum wage—now $10.15 hour—and found that larger paychecks reduced employee turnover and drew transfer requests from workers in other cities.

"There was a lot of bluster that higher wages meant the sky was falling," said owner Chuck Hammers, whose sales at five San Jose locations are up more than 10% since the wage change. "I stepped back and realized that as long as it is an even playing field, it's not going to affect us."

San Jose's wage floor jumped after a San Jose State University class project snowballed into a successful minimum-wage ballot initiative in 2012. The effort led San Jose to join San Francisco and Santa Fe, New Mexico, in pushing for mandated wages above state levels. Campaigns to raise local wages are now sprouting from Wilmington, Del., to other Bay Area cities. The push reflects the popularity of minimum-wage increases among voters and a federal level that has been stagnant for almost five years.

Few places show the headaches as starkly as the Westfield Valley Fair, a shopping mall on the border dividing San Jose and Santa Clara, where the minimum wage is $8 an hour.

The mall's [Gap](http://quotes.wsj.com/GPS)

 [(Links to an external site.)](http://quotes.wsj.com/GPS)

 store straddles the line. The law requires it to account for how long employees spend on each side, paying them accordingly. Instead, the store gives all its lowest-paid employees the higher wage, a spokeswoman said. Gap committed in February to establishing a $10 minimum wage for all its U.S. workers by next year.

The two Wetzel's Pretzels shops on opposite ends of the mall pay employees working on the Santa Clara side a lower starting wage. Franchise owner Yvonne Ryzak rotates employees between the locations. "That way, I don't have employees who are resentful that their colleagues get paid more than them," she said.

Senate Democrats renewed their push for a minimum wage increase to $10.10 last week, but it is unclear that a path to such legislation becoming law is certain. Jerry Seib explains the political and ideological battles surrounding the issue.

To help offset the San Jose wage increase, she raised pretzel prices by a nickel each at both stores. Ms. Ryzak gives her employees up to 20% of the stores' profits each year and predicts those twice-yearly bonuses will shrink as rising wages erode profitability.

The local increases create difficult adjustments for other businesses. Woody DeMayo, owner of 16 Carl's Jr. restaurants in northern California, charges $6.19 for a burger, fry and drink combo in San Jose, but $5.99 in Santa Clara.

For his San Jose stores to make the same profit as before the wage increase, the same combo meal would be $6.75. "That would chase off a large percentage of my customers," Mr. DeMayo said. He hasn't laid off San Jose workers but has reduced their hours, along with some maintenance such as the drive-through lane's daily hosing, and may close two unprofitable stores.

The reaction among San Jose employers was largely in line with a study of 288 areas where the minimum wage differed across county borders. The research, published in the Review of Economics and Statistics in 2010, found municipalities with higher pay didn't suffer job losses among low-wage restaurant workers. Nearly half of all minimum wage-earners work in food service.

One of the study's authors, University of California at Berkeley economist Michael Reich, said restaurants typically avoid layoffs because modest price increases and lower employee turnover offset the higher labor costs from wage gains.

Initial data a year after the minimum-wage increase shows the number of fast-food workers in the San Jose-Santa Clara metropolitan area rose at a faster pace than in the state overall.

Nick Taptelis, owner of Philz Coffee in San Jose, raised starting pay at his shop to $11 an hour in January to reward employees and improve the pool of new job applicants.

He increased his staff 30% in the past year and says that turnover has decreased to five workers a year from 15 workers. Because his employees are happier and more loyal, he said, customer service has improved.

"Everyone's in a good mood," Mr. Taptelis said.

Opponents warn against using localized data to support a national policy shift. "The nation isn't a single labor market," said former Congressional Budget Office director Douglas Holtz-Eakin, president of the right-leaning think tank American Action Forum. "The costs will be higher in other places."

San Jose's $10.15 minimum wage is roughly a third of the average hourly pay in the Bay Area. That fraction nearly matches the share of the federal level to the average hourly wage in the U.S.

Some economists say areas with higher living costs, such as northern California, can absorb increases more easily. In Arkansas and Mississippi, the states with the lowest average hourly pay, the effects could be quite different. More than a quarter of all hourly workers in those states earned less than $10.10 an hour in 2012, according to the Labor Department.

Even in suburban Chicago, with a higher cost of living than the South, an increased minimum wage led to job losses. White Castle operates two restaurants just 16 miles apart with nearly identical sales and demographics but separated by a state line.

Because the minimum wage in Illinois is $8.25 an hour, a dollar higher than in Indiana, the company reduced two positions through attrition in its Chicago Heights restaurant. Even with that reduction, labor as a percentage of sales is 29.8% at that store versus 26.4% for one in Hammond, Ind.

As a result, the Indiana store generates higher margins. White Castle won't raise prices at the Chicago Heights restaurant because the restaurant operates in the same market as Hammond, a spokesman said.

The minimum wage in California will rise to $9 an hour in July. In San Francisco it has increased every year for a decade because it is tied to inflation, making it among the nation's highest. The escalation has caused business owners like Bé Wierdsma to watch costs closely.

The owner of 62 Carl's Jr. restaurants in California, including two in San Francisco, found filtering the shortening more frequently could eliminate waste. So he made the practice standard across his stores.

He also instructed workers to turn off some fryers during nonpeak hours, reduced the number of garbage pick-ups and scrutinizes staffing.

"Our business is a penny business," he said. Overcoming higher labor costs "ultimately comes down to pricing."

Last year he raised prices 5% across all his restaurants, which span Fresno to the Bay Area, and said consumers haven't flinched. Due to those price increases, he said, profits haven't been hit by San Francisco's escalating minimum wage.

Patrick Renna, CEO of boloco, a 22-unit burrito chain based in Boston, pays starting workers $9 an hour. State lawmakers are considering raising the minimum wage to as much as $11 an hour from $8 an hour. Mr. Renna said most of his employees earn $11.50 an hour and that he eventually wants to bring them to $12.65 an hour—to match what a local university identified as the livable wage for the area.

"Our mission is to positively impact the lives of our people," Mr. Renna said. "We feel we can do better."

To offset labor costs, he has raised prices three times since 2010. And to maximize staffing levels, Mr. Renna allows customers to order and pay without talking to a server, if they choose, including through a mobile app, with online ordering and at a touch-screen kiosk.