

From: Bailey Road [mailto:baileyroad44@gmail.com]
Sent: Wednesday, April 11, 2018 2:44 PM
Subject: Testimony Notes for Sarah DeFelice & Bailey Road

Dear Committee,

Thank you for taking the time to learn about Bailey Road's story, ask engaging questions and listen to how a minimum wage increase will effect a small business like my own.

I have compiled a set of notes summarizing my testimony and thought I would pass them along. In addition to the points I shared during our time together I really appreciated Representative Helen Head's question about the percentage of expenses to revenue. I have included Bailey Road's breakdown below:

- 54% - COGS (Cost of Goods Sold)
- 17% - Payroll
- 8% - Rent/Property Taxes/Water/Sewer
- 7% - Debt Payments (Start Up loans, Lines of Credit)
- 5% - Advertisements/Marketing
- 4% - Travel (4 trade shows a year)
- 5% - Other (telecommunications, accountant, insurance, office supplies, charity contributions, merchandising, quickbook and point of sale subscriptions etc)

Notes

Below are Bailey Road's stats:

Years in operation: 4

Annual Revenue: \$300,000

Current # of Employees: 4 (one high school student, 3 retired professionals)

Current Wage: \$10.50 probationary first 6 months
\$11.00 after the first 6 months

Current Owner's Wage: \$11.87 (saying I only 40/hrs a week)

Payroll % of Revenue: 17% (standard in the retail industry from the VSBDC)

The Economic Breakdown

A \$15/hr wage would be a \$17.16/hr expense for the business when including payroll taxes and workman comp expenses.

A small retail business with a \$300,000 annual income has **\$51,000 to spend on both owner salary and employee wages** ($\$300,000 \times .17 = \$51,000$)

Using the information above this allows for a 2,972 hours to be paid out a year which means the business can only **afford to pay out 8 hours a day in payroll** ($2,972/365 = 8.1$).

8 hours a day does not allow for the needed staff to run a successful business. Customer service, hours of operation, flexibility to host promotional events are all effected by having an 8 hour a day payroll budget.

How the Phase in Proposal will Effect my Business

I believe the phase in effect of this proposal does as much to support the business owners as a wage increase will actually help the working families.

I agree that there are too many families and individuals that are living paycheck to paycheck and piecing together jobs to get by. I do not think that raising the wage is the fix to the real institutional obstacles that prevent people from "getting ahead". From healthcare costs, childcare cost, housing shortages, heating expenses - there are so many other factors besides a person's hourly wage that prevent them from moving up the economically ladder. Raising the minimum wage is not only overlooking these larger concerns but ultimately putting this vulnerable population at a higher risk when they find themselves on the edge of the "benefit cliff" that so many were concerned about at the public testimony I attended. In addition to a high wage resulting in loss of subsidized benefits, employers will have to off set the increase of payroll expenses by decrease employee hours or even worse having to let some employees go all together. I have attached the link to the New York Times article regarding this direct comparison between wage increase and loss of employee hours in the Seattle Study along with a section of the article below:

<https://www.nytimes.com/2017/06/26/business/economy/seattle-minimum-wage.html>

The University of Washington researchers found that the minimum-wage increase resulted in higher wages, but also a significant reduction in the working hours of low-wage earners. This was especially true of the more recent minimum-wage increase, from as high as \$11 an hour to up to \$13 an hour in 2016. In that case, wages rose about 3 percent, but the number of hours worked by those in low-wage jobs dropped about 9 percent — a sizable amount that led to a net loss of earnings on average.

I believe the phase in part of legislation is similar in producing a false sense of security with a delayed negative outcome.

While I continue to run and work hard at my business Bailey Road is not on a sales trend to ever becoming a half a million dollar company. A benchmark that needs to happen in order for a small business like my own to be able to off set the \$15 an hour wage increase and stay with in viable payroll expense percentages. While phasing in the increase would give my business time to slowly eliminate the payroll hours and give employees time to find another source of income, at the end of the time period the wage increase would have the same effect as if it happened tomorrow. A more universal economic concern is the impact it will have on other small start up companies. A mandatory payroll expense of that size is a HUGE barrier of entry into the small business market. Our state continues to be made up of a large percentage of small businesses and we can only hope that more entrepreneurs want to call Vermont their home. Saying nothing about how a minimum wage of \$15 an hour will effect our competitive edge in attracting start up companies - but having to open a business knowing you need to generate a revenue of \$500,00 limits the type of small mom and pop establishments that would be able to start and survive in the new Vermont business landscape.

Thank you again for your time,

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Sarah DeFelice
Owner of Bailey Road
For a life well dressed

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