April 5, 2019

Representative Thomas Stevens
Chair of the General, Housing and Military Affairs Committee
Vermont State House
115 State St.
Montpelier, VT 05661

Dear Representative Stevens,

Representative Gamache asked that I provide you with a summary of my testimony. The attached is from my notes and my best recollection of what I said and some limited clarifying input.

Best regards,

William P. Stritzler
Managing Director

Bill Stritzler's Testimony before the House Committee on General, Housing, and Military Affairs on April 4, 2019.

Bill is representing Vermont Ski Areas Association and with issues of a broader scope.

It is important to understand businesses want to pay employees as much as possible as it creates loyalty and productivity.

Vermont Ski Areas Association has two issues:

1) The treatment of seasonal workers which was discussed in a letter to the committee from Winfred Smith, Owner of Sugarbush

2) The second issue is the mandated 7% annual increase regardless of conditions in the economy.

We are suggesting if the seasonal worker issue is not resolved in this legislation, that it be deferred to the summer work project committee.

Smugglers' Statistics

- Seasonal payroll is $4.1 million
- Average hourly rate for women is $11.60/hr.
- Average hourly rate for men is $12.06/hr.

Smugglers' has 400 seasonal and part-time employees. One-third of those workers are seasonal minimum wage. They consist of lift operators, summer camp counselors, summer lifeguards, and beginner ski instructors.

When minimum wage is raised the issue of wage compression is a factor in the total cost for an employer. The issue is fairness in the salary administration, needing to assure that employees with more job experience and more job complexity are compensated fairly relative to those without either.

Full-time employee's average hourly rate is $17.97 for men and $19.03 for women. The averages do not include the top ten salaries of the business to avoid unfair comparison.

With these average full-time year-round salaries the proposed $15/hr. minimum has little effect.

The Federal Reserve has established a goal of an average of 2% inflation over the next five years. Our total payroll is $18 million so the growth in all categories would be $360,000. At 7% proposed growth, the total would be $1.3 million or a million dollars less in investment dollars benefiting both the business and state.

However, realistically, businesses will not grow their entire payroll by 7%. Most businesses can manage around reasonable mandates, especially in good times. Our greatest fear is the ability to manage in bad times. There are many predictors of recession within the next year or so. When recession arrives, business volumes decline, and in the last recession, inflation dropped below zero in 2009, and was only 1% in 2015.

If we combine low business volumes with a mandated 7% pay raise at the low end of the pay scale, and combined with wage compression, the unintended consequences will be significant. Even the most liberal economist would not suggest pay increases seven times the inflation rate during a recession.

If the legislation persists at 7%, the most vulnerable are unlikely to see an increase. The only meaningful pay is take-home pay. If faced with financial threat, businesses will find a way to reduce hours and nullify the impact of the increase on their business. This is a very bad solution as reduced hours can impact service to the customers and businesses work hard to avoid reduced hours as a solution.

The hard political and economic question is where to do you draw the line. The Senate has proposed a new index to inflation after $15/hr. minimum is achieved. We are suggesting an index to inflation be developed now rather than a fixed 7%. We suggest an inflation multiplier of two times, with a floor of 2% and a limit of 5.5%. Although difficult, most businesses can manage to that number, in my opinion.

If the Fed, over the next five years, precisely hits 2%, $14.85/hr. will be achieved in 2027. If reasonably good times continue and inflation grows at 2.5%, the minimum wage will be $15.26/hr. in 2026. And if inflation grows to 2.75%, or our upper limit of 5.50% growth in minimum wage, than in 2025 the minimum rate will be $14.96/hr.

The headlines will read "Vermont passes legislation guaranteeing minimum wage earners will have an hourly rate increase at twice the inflation rate and a minimum increase of 2%."

The formula is intended to minimize the unintended consequences of recession on the very employees we are trying to help while giving businesses the opportunity to adjust compared to a mandated 7% annual increase.