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Restaurateurs fear impact of wage hike

BY PAT FERRIER
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Samantha Ellis is in line for a raise Jan. 1 - 17 cents more an hour - hardly enough to buy a grande, nonfat, whipped gingerbread latte.

But it will help her make ends meet, since winter is slow at Manno's at Collindale, the restaurant where she waits tables a couple nights a week.

Ellis and other restaurant workers who rely primarily on tips will see their base pay go up from \$3.83 to \$4 an hour in January, thanks to a 2006 voter-approved state constitutional amendment.

Amendment 42 supersedes federal wage law and requires Colorado to pay a higher minimum that adjusts for inflation every January.

That means minimum-wage workers will see pay bumps from \$6.85 to \$7.02 per hour, while restaurant workers are going to \$4 an hour.

It's enough to burn the bacon of a restaurant industry already struggling with higher food, gas and utility costs.

Labor experts agree the increase for nontipped workers will have little impact on Larimer County businesses because most pay above minimum wage just to stay competitive.

The restaurant business, however, which typically pays a base minimum rate plus tips, will likely take the most direct hit, said Pete Meersman, director for the Colorado Restaurant Association.

The end result for consumers could be higher prices or reduced service and fewer hours for workers.

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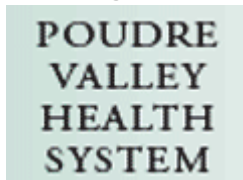


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"Ultimately you have to wonder how much people are going to want to pay for a hamburger or chicken sandwich," Meersman said.

Restaurants typically run a lower profit margin - about 3.5 percent, he said. "There's not enough margin there generally for it to be absorbed."

Alone, the bump is relatively minor. But coupled with this year's \$1.70-an-hour increase, restaurateurs say it's taking a bite out of their bottom line.

Some business leaders say Amendment 42 was a well-intentioned, if ill-conceived move to help low-income workers, but that it ignored basic economics.

"It's one of these issues that oftentimes people's hearts get ahead of their understanding of economics and they think they're doing great things when in fact it has deleterious effects," said David May, president and CEO of the Fort Collins Area Chamber of Commerce.

The state Department of Labor uses the Denver-Boulder-Greeley Consumer Price Index for all urban consumers for Jan. 1 to June 30 every year to determine the annual increase in the Colorado minimum wage.

Colorado State University economist Stephan Weiler said an issue with the annual increase is whether the index itself accurately reflects local conditions for cities as disparate as Fort Collins and Grand Junction and sets a minimum wage that is realistic for each market.

Economists aren't sure what impact minimum wage hikes have on the economy, Weiler said.

"Workers' hours may be cut, but the reality for some of those minimum-wage workers is that they're already working a couple jobs, so they may have to work a couple-and-a-half jobs," Weiler said. "It's amazing how people figure out how to get by. I don't think there will be layoffs; it's more a question of cutting back here and there."

In the fast-food industry, Weiler said there is some evidence that increases in minimum wage have had a positive effect on business because workers care more about jobs that pay more.

"If you're getting paid \$5 an hour, you care less about that job than if you're paid \$7," he said. "The hidden cost (of lower wages) to business is turnover, which in the fast-food business can be 70 to 100 percent. Turnover costs employees hugely in terms of training and short-staffing."

May believes the mandated increases amount to a hidden tax on consumers, who will end up paying higher prices for meals. It may force some businesses to cut back on employees' hours, hurting the same people the amendment was designed to help, he said.

Or it could force some companies out of business altogether if they can't absorb or pass along the costs.

The Bell Policy Center, which lobbied for Amendment 42, said there's never been any evidence that higher minimum wages lead to unemployment.

The increased pay rate has allowed those working at minimum wage to keep pace with inflation, said Rich Jones, director of policy and research at the Bell Policy Center in Denver.

From that standpoint, they are better off, he said. Those making just more

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than the minimum wage likely received a pay bump as employers sought to preserve pay differential between jobs, he said.

States such as Oregon that tied minimum-wage increases to the cost of inflation have seen continued growth in the restaurant sector and others that employ low-wage workers, Jones said. The center intends to go back after it has collected data and look at the impact of the annual minimum-wage hikes.

"The point we argued during the campaign is that in effect this is guaranteeing low-wage workers will be protected from the ravages of inflation going forward, and I think that is a fundamental right and needs to be protected in the Constitution."

Ellis, the waitress at Manno's, said the increase helps temper a slow night.

"If I make quite a bit in tips, I don't look at the hourly wage as much, but if I don't have a good shift, it means I will still be bringing home a little more," she said.

For restaurant owners such as Rayno Seaser, owner of two Egg & I restaurants in Fort Collins and one in Loveland, the minimum wage is just one more in a long line of costs that are going up.

Among the three restaurants, he estimates 60 servers and bus people will benefit from the wage hike.

With food, gas and utilities all going up, Seaser creatively watches for places to cut, hoping to forestall price hikes.

He is installing programmable thermostats, possibly lowering the temperature by 1 degree, turning on gas appliances as needed and recalibrating all equipment for efficiency, looking for any possible savings.

"Come Jan. 1, I probably will not be able to weather the storm, but with the combination of efforts we are putting in with scheduling, controlling and managing fixed costs, we are trying to have as minimum an increase as possible," Seaser said.

Tim Veldhuizen, co-president of the Larimer Restaurant Association, said he is raising prices and cutting back hours at his four Loveland eateries.

"The game is to try to cover the increased expenses as efficiently as possible. ... (C)ertainly from the restaurant owners' point of view, we will staff more leanly and will reduce hours because most of us can't absorb the regular increase in costs without passing it along to customers."

It's not a move any restaurateur wants to make, Veldhuizen said, but it's a necessary part of doing business under Amendment 42.

The part of the amendment that bothers him the most is the minimum-wage increase for tipped workers.

"A lot of the servers are seeing increases in their minimum wage when a lot of them are already making \$15 an hour with tips."

Ellis said on a good night, she can make \$40 to \$50 in tips for a few hours' work.

While Seaser acknowledges the increase in minimum wage will help his wait staff, "I'm sad that it's something outside of our control that is mandated by the government."

Veldhuizen added: "A minimum-wage bill as a constitutional amendment doesn't make any sense at all. Businesses have to have the flexibility to adjust to different economic conditions."

At BBQ Bob's in Loveland, co-owner Barbara Green said the increase in minimum wage has led to fewer raises for her staff.

She used to hire 15-year-olds at \$5.50 an hour when the minimum wage was \$5.25. After training, the worker would get a 25-cent-an-hour raise and 25-cent raises every 90 days thereafter.

"I want to take care of the people who work for me. I could hire and keep people better than McDonald's because I could deal with each one of the employees and reward them," Green said.

Now, she's upped her prices and doesn't give raises anymore.

Unless the constitutional amendment is changed, business owners' hands are tied, said Veldhuizen, who owns Cipoletti's, McGraff's, Fourth Street Chophouse and American Grill in Loveland.

"Until the economy crashes and people start screaming, no one will really consider trying to overturn it," he said. "All we can do is continue to raise our prices every year and watch our costs."

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Comments by: **Greg R Snyder** Posted: Sun Dec 16, 2007 1:01 pm
Wait until they have to start paying the state for health insurance!

Comments by: **YETIBIKER** Posted: Sun Dec 16, 2007 10:10 am
"States such as Oregon that tied minimum-wage increases to the cost of inflation have seen continued growth in the restaurant sector and others that employ low-wage workers, Jones said."

Having lived in central oregon last year I have seen this as true. The resturants there do fine paying all waiters, tipped employes the oregon minimum wage of \$7 plus an hour and the resturant owners are doing fine. I just don't get what the resturant owners here are complaing about, where are they spending so much more money on that they don't in Oregon? seeing how things can be different somewhere else really opens your eyes....

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