SURVEY CONCLUDES MINIMUM WAGE AND AGRICULTURAL OVERTIME LAWS WILL REDUCE POTENTIAL FARMWORKER EARNINGS

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Following enactment of California's minimum wage (SB 3) and agricultural overtime (AB 1066) laws earlier this year, Western Growers conducted a survey of its California members to capture the business decisions they are now planning and the impact on farmworkers and farm businesses. While these two measures were being considered by the legislature and governor, Western Growers, along with many agriculture and business community allies, warned that, taken together, sharply higher minimum wage *and* agricultural overtime costs would harm the very people that supporters of these measures claimed to be helping: farmworkers.

Labor costs represent a large portion of operating costs for growers of fruit and vegetable crops in California, ranging from 46% to 58% according to a recent analysis conducted by *Highland Economics*. This study also concluded that the pending increases in minimum wage combined with the Legislature's changes to agricultural overtime laws would dramatically increase labor costs, nearly 20% for vegetable growers and more than 25% for fruit growers.

As confirmed in our survey, these increases in operating costs cannot be passed on to retail and grocery chains. California vegetable and fruit farmers are price-takers and compete in a global marketplace. Simple economics dictate that if our prices are too high, our buyers will go elsewhere. Consequently, to maintain profitability while remaining competitive vis-à-vis growers in other states and countries, our farmers must control costs, and must focus on their biggest line item. Labor costs can be contained in a number of ways, including by reducing California production, shifting to less labor-intensive crops and mechanization.

Each of these options either reduces farmworker hours and wages or eliminates jobs entirely. The impact of the minimum wage and agricultural overtime laws will be to disproportionately injure farmworkers, their families and the rural communities in which they live.

Furthermore, in an effort to control labor costs and remain competitive, many California fresh produce farmers will be forced reevaluate the range of employee benefits many provide to their farmworkers, including requiring employees to contribute more to their healthcare coverage, reducing vacation days and/or reducing company-paid contributions to 401(k) and other retirement accounts.

SURVEY METHODOLOGY

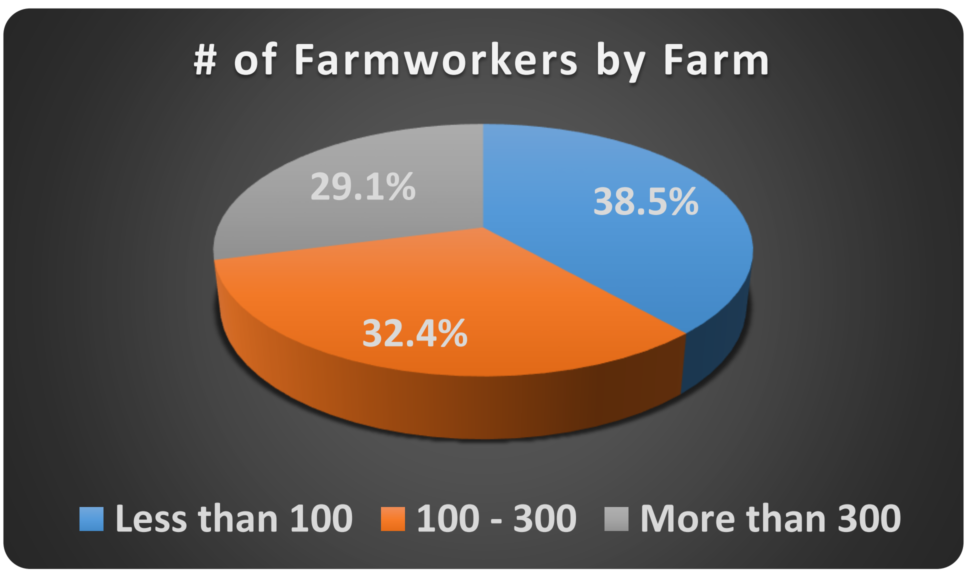
The findings in this report come from an electronic survey of Western Growers' regular members conducted by the association between October 31st and November 11th, 2016.

148 Western Growers members responded to the survey, nearly 18% of the total regular membership of the association.

RESPONDENT DEMOGRAPHICS

Participants in the survey operate in 51 of the 58 counties in California, with Monterey (27.7%), Fresno (23.0%), Imperial (21.0%), Santa Barbara (17.6%) and Kern (16.2%) as the counties with the greatest number of respondents.

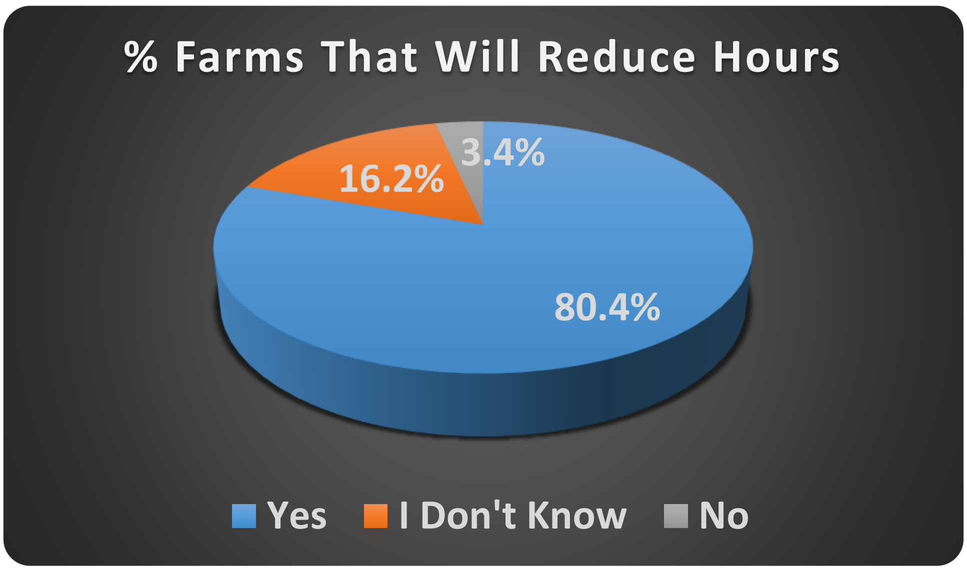
At peak seasonal employment, the respondents hire an evenly distributed range of employees, from less than 25 to more than 500, with a slight skew toward smaller growers employing less than 100 employees.



On average, farmworkers from the companies in the survey work an average of 9.6 hours per day and 56 hours per week, just below the 10 hours per day and 60 hours per week threshold that will be eliminated by the new agricultural overtime law.

More than 80% of farms will cut back working hours for farmworkers

As a consequence of the agricultural overtime law, 80.4% of farm companies will scale back the number of daily and weekly hours offered to farmworkers to align themselves with the new 8 hours per day and 40 hours per week threshold established by the measure. Most labor-intensive jobs will be impacted, including harvest crews, packing and processing workers, irrigators, tractor and truck drivers, and equipment operators. Some of these positions, such as irrigators and equipment operators, are among the best paying jobs in agriculture.



Only 3.4% of the respondents indicated they will not reduce hours for their farmworkers, with another 16.2% of the companies suggesting they have yet to run the numbers. When forced to confront reality, it is likely many of the "undecided" respondents will shift into the "yes" column, meaning nearly 97% of all farms could end up reducing both daily and weekly hours for their employees.

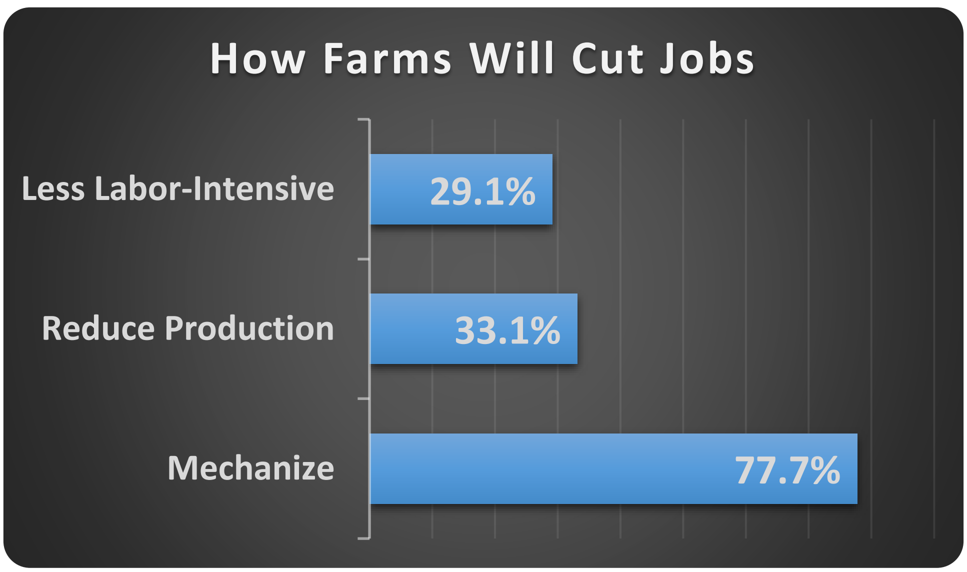
On average, farmworkers will lose 15 hours of work and $180 in income per week

Respondents indicated a strong likelihood of reducing work schedules to avoid paying overtime to their employees. On average, farmworkers will lose 15 hours of work per week (predictably bringing average weekly hours down to nearly 40, in line with the new agricultural overtime threshold). With the average hourly wage of employees impacted by the agricultural overtime law reported at $12.40, the total weekly loss in wages for the average farmworker will be $180, or between $700 and $800 per month. This number (lost potential earnings) will only increase as the minimum wage scales up to $15.00 per hour by 2022.

Many farmworker jobs will be eliminated as farms will look for ways to reduce the need for labor

As a consequence of minimum wage and agricultural overtime legislation, California fruit and vegetable farms will begin looking for ways to reduce the need for labor. Many of these farms will employ a combination of labor-saving approaches such as mechanization, reducing California-based production and shifting to less-labor intensive crops. As a result, many farmworker jobs will be phased out as these two policies are implemented over the next six years.

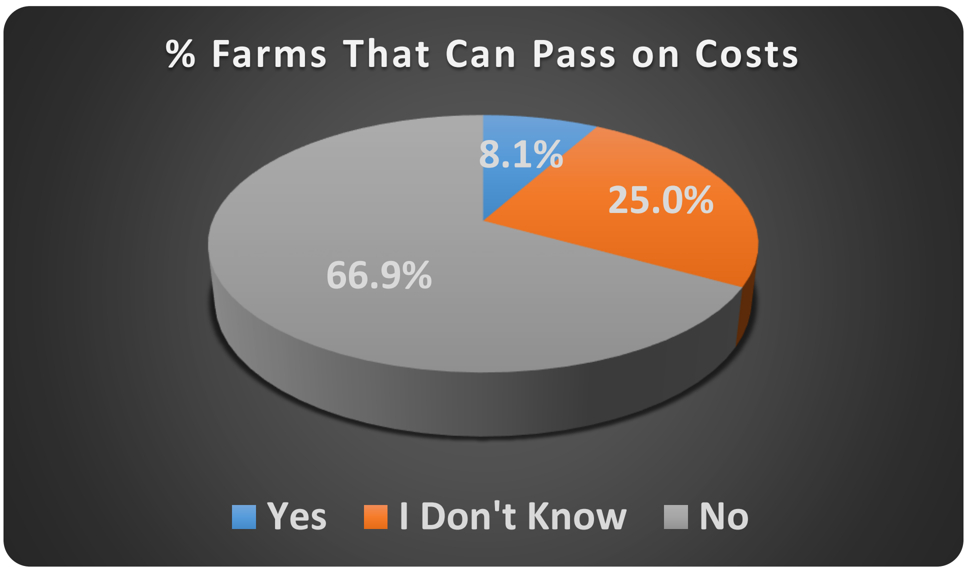
78% of respondents signaled that they plan to mechanize existing labor-intensive jobs to reduce or eliminate the need for labor, including investments in robotics; advanced computer systems; automated irrigation; automated planting, pruning, thinning/weeding, harvesting and packing/processing; and self-driving tractors and trucks. Beyond mechanization, 33% of farms plan to reduce California-based production and 29% plan to shift to less labor-intensive crops.



Taken together, these measures will significantly reduce the number of entry-level and skilled jobs for immigrants seeking to take the first step on the "American Economic Ladder."

Fewer than 10% of farms will be able to pass the added costs of minimum wage and agricultural overtime along to buyers

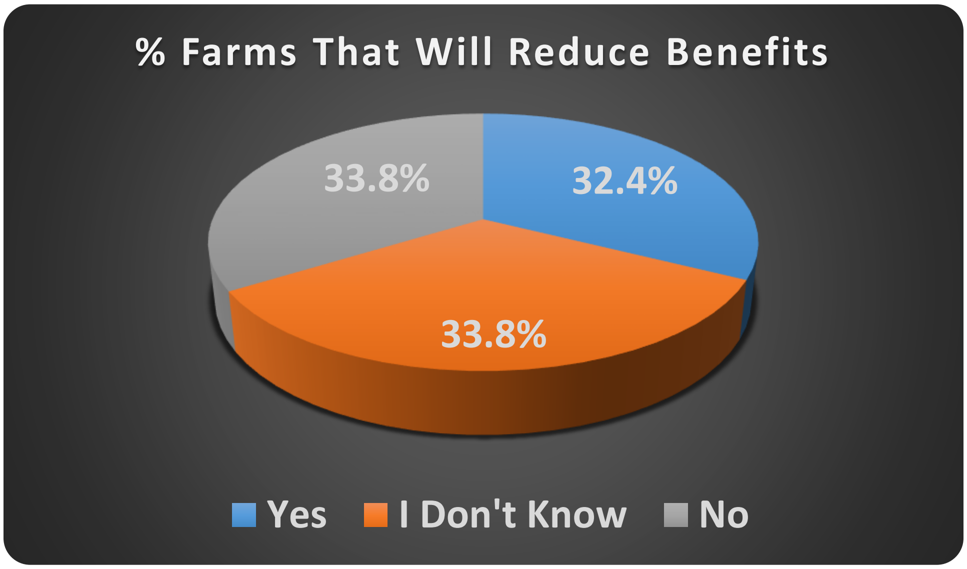
The fact is, farmers are price takers. California fresh produce farms compete in a national and global marketplace against competitors with less stringent and expensive legislative and regulatory environments. 67% of respondents indicated they will not be able to increase prices to their buyers to off-set the increased production costs related to higher minimum wage and lower thresholds for overtime. Another 25% of farms signaled uncertainty, leaving just 8% of companies able to pass the added costs on to restaurants, retail and grocery chains.



Given the highly-competitive global marketplace, it is likely that many of the respondents in the "I don't know" column will eventually realize they cannot off-set the added legislative costs of doing business in California, resulting in up to 92% of California fruit and vegetable farms being forced to cut costs in other areas, including by reducing benefits to their farmworkers.

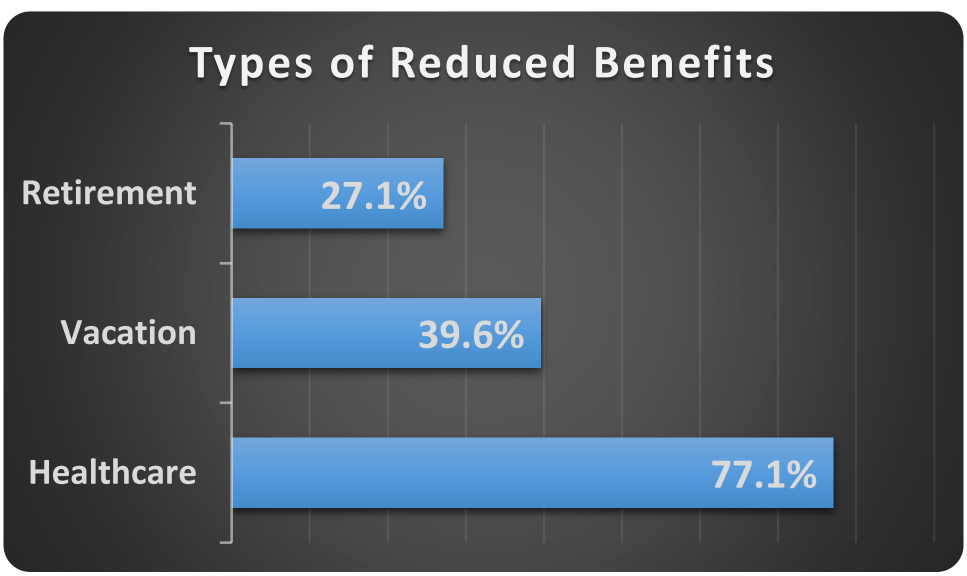
Nearly one-third of farms plan to reduce benefits offered to their employees

Many California farms provide a range of benefits to their farmworkers, including health care, paid vacation and retirement contributions. As a result of increasing costs from minimum wage and agricultural overtime legislation, 32% of respondents indicated they will cut costs related to benefits, including asking employees to contribute more to their healthcare coverage and reducing vacation days and contributions to retirement accounts. Only 34% of farms signaled they will maintain these benefits at current levels.



Given the roughly even split in responses, it is reasonable to assume that at least half of the respondents in the "I don't know" column will eventually seek to cut costs by reducing the benefits they offer their employees, resulting in nearly 50% of California farms being forced to cut farmworker benefits to remain viable.

Of the companies that indicated they will cut costs by reducing farmworker benefits, the vast majority (77.1%) plan to ask employees to contribute more toward their healthcare coverage. Other intended reductions in benefits include reducing vacation days (39.6%) and reducing 401(k) or other retirement contributions (27.1%).



60% of farms with plans to expand operations in California will now shift their expansion plans to other states and countries

Nearly 38% of respondents indicated their company had plans to invest in expansion in California, but because of the significant added costs of doing business in the state due to minimum wage and agricultural overtime, they no longer plan to expand here (another 26% indicated they have not made a decision yet, which means that many more farms will likely abstain from reinvesting in the state). Instead, 60% of these companies signaled they will now actively pursue expansion in other states and countries, taking with them hundreds of millions of investment dollars. According to Highland Economics, this economic dislocation will result in $587 million in lost farm investments in California.

CONCLUSION

The results of our survey confirm the conclusions of the *Highland Economics* analysis conducted during the agricultural overtime debate earlier this year: Together, SB 3 and AB 1066 will reduce farmworkers' income while diminishing California's agricultural production and harming the state's economy.

When the results of our survey are extrapolated to the entire California agricultural industry, the economic costs of these two legislative dictates reaches in the billions of dollars, both in terms of lost farmworker income and lost revenue for farms and related agricultural businesses. As a consequence of the minimum wage and agricultural overtime legislation, Highland Economics estimates $1.5 billion in reduced aggregate farmworker income (16%) and between $4.9 and $7.8 billion in lost income statewide.