

File No. 170538

Committee Item No. _____

Board Item No. 32

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: _____
Board of Supervisors Meeting

Date: _____
Date: October 23, 2018

Cmte Board

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Prepared by: Lisa Lew

Date: October 18, 2018

Prepared by: _____

Date: _____

[Administrative Code - Increasing the Minimum Compensation Hourly Rate for Employees Under Contracts with Nonprofit Corporations and Public Entities]

Ordinance amending the Administrative Code to increase, on July 1, 2019, the minimum hourly compensation rate for employees of City contractors other than nonprofit corporations or public entities to \$15.86 per hour on July 1, 2017, \$16.86 per hour on July 1, 2018, under contracts with Nonprofit Corporations to \$16.00 plus an amount corresponding to the prior year's increase, if any, in the Consumer Price Index, and followed thereafter by annual cost-of-living increases; to increase the minimum hourly compensation rate for employees under contracts with public entities to \$17.00 on the 60th day following enactment of this ordinance and followed thereafter by annual cost-of-living increases; and establishing a working group to consider and advise on issues related to wage increases for employees under contracts with Nonprofit Corporations and public entities, and to require that City contractors pay the minimum hourly compensation rate to employees who perform any work funded under an applicable contract with the City.

NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
Additions to Codes are in *single-underline italics Times New Roman font*.
Deletions to Codes are in *strikethrough italics Times New Roman font*.
Board amendment additions are in double-underlined Arial font.
Board amendment deletions are in ~~strikethrough Arial font~~.
Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. The Administrative Code is hereby amended by revising Section 12P.3 to read as follows:

SEC. 12P.3. MINIMUM COMPENSATION COMPONENTS.

1 (a) Minimum Compensation shall consist of the following:

2 (1)

3 * * * *

4 (B) (i) For Contracts and Contract Amendments with Nonprofit
5 Corporations and ~~public entities~~, hourly gross compensation shall be, as of July 1, 2019,
6 \$16.00 plus an amount corresponding to the prior year's increase, if any, in the Consumer
7 Price Index. Annually thereafter, on July 1, in order to prevent inflation from eroding the value
8 of this rate, the hourly gross compensation in effect for the prior calendar year shall increase
9 by an amount corresponding to the prior year's increase, if any, in the Consumer Price Index,
10 November 3, 2018 or the effective date of the ordinance in Board File No. 170297, whichever
11 is later, the Minimum Wage, as set forth in Administrative Code Section 12R.4, as may be
12 amended from time to time.

13 (C) For Contracts and Contract Amendments with public entities, hourly
14 gross compensation shall be, on the 60th day after enactment of the ordinance in Board of
15 Supervisors File No. 170538, \$17.00. In order to prevent inflation from eroding the value of
16 this rate, on July 1, 2019, the hourly gross compensation rate shall increase by an amount
17 corresponding to the prior year's increase, if any, in the Consumer Price Index. Annually
18 thereafter on July 1, the hourly gross compensation in effect for the prior calendar year shall
19 increase by an amount corresponding to the prior year's increase, if any, in the Consumer
20 Price Index.

21 (D) For Contracts and Contract Amendments covered by Section 12P.4
22 of this Chapter 12P, hourly gross compensation shall be, as of November 3, 2018 or the
23 effective date of the ordinance in Board File No. 170297, whichever is later, \$17.00. (iv) In
24 order to prevent inflation from eroding the value of this rate, on July 1, 2019, the hourly gross
25 compensation rate shall increase by an amount corresponding to the prior year's increase, if

1 any, in the Consumer Price Index. Annually thereafter on July 1, the hourly gross
2 compensation in effect for the prior calendar year shall increase by an amount corresponding
3 to the any prior year's increase, if any, in the Consumer Price Index.

4 (2) Compensated time off (at the compensation rates specified in subsection
5 (a)(1) of this Section 12P.3) in an hourly amount that, on an annualized basis for a full-time
6 employee, equals twelve days per year. Such time off shall vest with the Covered Employee
7 at the end of the applicable Pay Period and may be used, for sick leave, vacation or personal
8 necessity. Notwithstanding the foregoing, if a Contractor reasonably determines, in good faith,
9 that the Contractor cannot comply with this requirement for compensated time off, the
10 Contractor shall provide the Covered Employee with a cash equivalent of such compensated
11 time off.

12 (3) Uncompensated time off in an hourly amount that, on an annualized basis
13 for a full-time employee, equals ten days per year. Such time off shall vest with the Covered
14 Employee at the end of the applicable Pay Period and may be used, at the option of the
15 Covered Employee, for sick leave for the illness of the Covered Employee or such Covered
16 Employee's spouse, domestic partner, child, parent, sibling, grandparent or grandchild.

17 (b) By March 1 of each year, the Agency shall make available at its office and on its
18 website the hourly rates required by this Section 12P.3.

19 (c) When preparing proposed budgets and requests for supplemental appropriations
20 for contract services, City departments that regularly enter into agreements for the provision of
21 services by Nonprofit Corporations shall transmit with their proposal a written confirmation that
22 the department has considered in its calculations the costs that the Nonprofit Corporations
23 calculate that they will incur in complying with the Minimum Compensation Ordinance.

1 (d) Subject to the budgetary and fiscal provisions of the Charter, it shall be the policy
2 of the City to ensure sufficient funding to prevent a reduction in the services to the community
3 provided by Nonprofit Corporations and public entities.

4 (e) The Controller shall convene a Working Group to consider and advise the Board of
5 Supervisors and the Mayor.

6 (1) The Working Group shall consider and advise on methods to address
7 anticipated issues that would result from an increase in the hourly compensation rate for
8 employees under contracts with Nonprofit Corporations, including but not limited to:

9 (A) Wage equity: the inequity that occurs when workers funded by a City
10 contract receive a higher wage than other workers who are performing the same work but are
11 funded by non-City contracts; and

12 (B) Wage compaction: the inequity that occurs when the difference
13 between wage levels is reduced because one worker funded by a City contract receives an
14 increased wage while other workers do not.

15 (2) The Working Group shall be subject to the following requirements:

16 (A) Members. The Working Group shall be comprised of the following
17 members:

18 (i) The Controller of the City and County of San Francisco, or the
19 Controller's designee ("Controller");

20 (ii) One representative from the Human Services Agency,
21 designated by the Executive Director;

22 (iii) One representative from the Department of Public Health,
23 designated by the Director of Health;

1 (iv) Three workers who are employees of different Nonprofit
2 Corporations that are subject to the Minimum Compensation Ordinance, designated by the
3 Controller;

4 (v) One staff representative from the San Francisco Labor
5 Council, designated by the Controller;

6 (vi) One staff representative from the Service Employees
7 International Union 1021, designated by the Controller;

8 (vii) Two executives (chief executive officer, chief operating
9 officer, chief finance officer, or other member of the management team) of different Nonprofit
10 Corporations that are subject to the Minimum Compensation Ordinance, designated by the
11 Controller.

12 (B) Meetings. The Working Group shall meet as necessary between the
13 effective date of the ordinance in Board of Supervisors File No. 170538, creating this
14 subsection (e), and April 1, 2019. The Working Group may begin meeting once six members
15 have been designated.

16 (C) Report. The Working Group shall prepare a report on matters within
17 the scope of subsection (e)(1) for submission to the Board of Supervisors and the Mayor no
18 later than April 1, 2019.

19 (3) Expiration. This subsection (e), and hence the Working Group, shall expire
20 by operation of law on May 1, 2019. After that date, the City Attorney shall cause this
21 subsection (e) to be removed from the Administrative Code.

22
23 Section 2. Effective Date. This ordinance shall become effective 30 days after
24 enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the
25

1 ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board
2 of Supervisors overrides the Mayor's veto of the ordinance.

3
4 Section 3. Scope of Ordinance.

5 (a) In enacting this ordinance, the Board of Supervisors intends to amend only those
6 words, phrases, paragraphs, subsections, sections, articles, numbers, punctuation marks,
7 charts, diagrams, or any other constituent parts of the Municipal Code that are explicitly
8 shown in this ordinance as additions, deletions, Board amendment additions, and Board
9 amendment deletions in accordance with the "Note" that appears under the official title of the
10 ordinance.

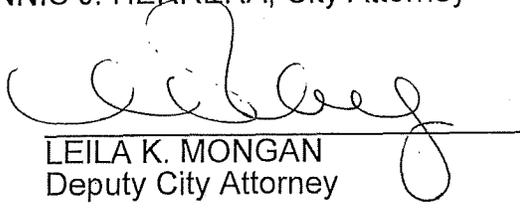
11 (b) For purposes of subsection (a), this ordinance treats as existing code text, within
12 the meaning of the "Note" that appears under the official title of the ordinance, the
13 amendments of the Administrative Code in Ordinance No. 232-18 (Board File No. 170297),
14 passed by the Board of Supervisors on October 2, 2018, and signed by the Mayor on October
15 12, 2018.

16
17 Section 4. Severability. If any section, subsection, sentence, clause, phrase, or word
18 of this ~~Chapter 12P~~ ordinance, or any application thereof to any person or circumstance, is
19 held to be invalid or unconstitutional by a decision of a court of competent jurisdiction, such
20 decision shall not affect the validity of the remaining portions or applications of the Article. The
21 Board of Supervisors hereby declares that it would have passed this Article and each and
22 every section, subsection, sentence, clause, phrase, and word not declared invalid or
23
24
25

1 unconstitutional without regard to whether any other portion of this Article or application
2 thereof would be subsequently declared invalid or unconstitutional.

3
4 APPROVED AS TO FORM:
5 DENNIS J. HERRERA, City Attorney

6
7 By:

8 
9 LEILA K. MONGAN
10 Deputy City Attorney

11 n:\egana\as2017\1700496\01304223.docx

REVISED LEGISLATIVE DIGEST

(Amended in Board, 10/16/2018)

[Administrative Code - Increasing the Minimum Compensation Hourly Rate for Employees Under Contracts with Nonprofit Corporations and Public Entities]

Ordinance amending the Administrative Code to increase, on July 1, 2019, the minimum hourly compensation rate for employees under contracts with Nonprofit Corporations to \$16.00 plus an amount corresponding to the prior year's increase, if any, in the Consumer Price Index, and followed thereafter by annual cost-of-living increases; to increase the minimum hourly compensation rate for employees under contracts with public entities to \$17.00 on the 60th day following enactment of this ordinance and followed thereafter by annual cost-of-living increases; and establishing a working group to consider and advise on issues related to wage increases for employees under contracts with Nonprofit Corporations and public entities.

Existing Law

The Minimum Compensation Ordinance ("MCO") generally requires City contractors to provide their covered employees with no less than the MCO hourly compensation rate. The MCO covers most City service contractors, including for-profit companies, those who hold leases or perform work at San Francisco International Airport, nonprofit corporations, and public entities.

For contracts and contract amendments with nonprofit corporations or public entities, the MCO hourly gross compensation is currently the minimum wage, which increased to \$15 per hour on July 1, 2018.

For contracts and contract amendments with contractors other than nonprofit corporations or public entities, the hourly gross compensation under the MCO will increase to \$17.00 on November 12, pursuant to an ordinance in File No. 170297, passed by the Board on October 2, 2018 and signed by the Mayor on October 12, 2018. This applies to airport workers who are employees of contractors other than nonprofit corporations or public entities. Workers under contracts and contract amendments with contractors other than nonprofit corporations or public entities will receive annual CPI increases on starting on July 1, 2019.

These hourly rates apply to employees of City contractors who work in San Francisco. Workers outside the City currently receive \$14.02.

From 2004 through 2015, the MCO hourly compensation rate was, on average, \$1.86 per hour higher than the minimum wage.

Amendments to Current Law

For contracts and contract amendments with nonprofit corporations, hourly gross compensation would be as follows:

- Beginning on July 1, 2019, an hourly gross compensation of \$16.00 plus the increase, if any, in the Consumer Price Index ("CPI") for the preceding year. For example, if the CPI increased 2% for the year preceding July 1, 2019, then the hourly gross compensation beginning on that date would be \$16.32.
- CPI increases, if any, would go into effect on every July 1 thereafter.

For contracts and contract amendments with public entities, hourly gross compensation would be as follows:

- Beginning on the 60th day after enactment of the ordinance, an hourly gross compensation of \$17.00.
- CPI increases, if any, would go into effect on July 1, 2019, and every July 1 thereafter.

This ordinance would create a working group to address issues related to the implementation of these rates.

- The Controller would convene the working group, comprised of ten individuals: the Controller; one representative from the Human Services Agency; one representative from the Department of Public Health; three workers from different nonprofits subject to the MCO; two staff members representing labor interests; and two executives from different nonprofits subject to the MCO.
- The working group will meet until April 1, 2019, and will provide a report to the Board and Mayor by that date addressing the following topics: (1) wage equity: the inequity that occurs when workers funded by a City contract receive a higher wage than other workers who are performing the same work but are funded by non-City contracts; and (2) wage compaction: the inequity that occurs when the difference between wage levels is reduced because one worker funded by a City contract receives an increased wage while other workers do not.
- The Working Group will expire on May 1, 2019.

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**CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

October 19, 2018

TO: Members of the Board of Supervisors
FROM: Budget and Legislative Analyst's Office
SUBJECT: October 23, 2018 Board of Supervisors Meeting

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Item 32 File 17-0538	Department: Office of Labor Standards Enforcement
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <p>File 17-0538 is an ordinance amending Administrative Code Section 12P to increase the minimum compensation for employees of (a) nonprofit organizations having contracts with the City to \$16 per hour as of July 1, 2019, plus an amount corresponding to the prior year's increase in the Consumer Price Index (CPI); and (b) public entities, including In Home Supportive Services (IHSS), to \$17 per hour on the 60th day after enactment of the ordinance. The minimum compensation amount for employees of nonprofit organizations and public entities would increase each year on July 1 by the CPI.</p> <p>Key Points</p> <ul style="list-style-type: none"> • The City's Minimum Compensation Ordinance requires City contractors to pay their covered employees no less than the minimum hourly compensation rate. The Board of Supervisors adopted Ordinance 232-18 in October 2018, setting minimum compensation for employees of for-profit contractors with the City as of November 3, 2018 at \$17 per hour, which is \$2 per hour more than the San Francisco minimum wage of \$15 per hour. • The proposed ordinance sets minimum compensation for employees of nonprofit organizations at \$16 per hour as of July 1, 2019, plus a CPI adjustment. The minimum compensation for IHSS employees would be set at \$17 per hour, 60 days after approval. • The ordinance also establishes working group to advise the Mayor and the Board of Supervisors on (a) wage equity between employees of nonprofit organizations working on City contracts who are paid minimum compensation and other employees of the nonprofit organizations; and (b) the impact of wage compaction. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • According to the Controller's October 15, 2018 memorandum, the estimated increased cost to nonprofit organizations in FY 2019-20 to increase minimum compensation to \$16 per hour (approximately \$0.50 per hour more than the estimated minimum wage on July 1, 2019 of \$15.50 per hour) is \$500,000. If nonprofit organizations increased the wages of higher-paid workers to maintain wage differentials and reduce wage compaction, the estimated costs to nonprofit organizations in FY 2019-20 is at least \$3.5 million. • As a result of SB 90 (2017), the State of California implemented a new county maintenance-of-effort in FY 2017-18 for the In Home Supportive Services (IHSS) program, increasing counties' contributions to IHSS costs. The proposed minimum compensation of \$17 per hour paid to IHSS workers, which is \$2 per hour more than the current minimum wage of \$15 per hour, will increase San Francisco's maintenance of effort. The Human Services Agency is finalizing estimates on the impact of the proposed minimum compensation increase on San Francisco's maintenance of effort. We will review these and provide estimates to the October 23, 2018 Board of Supervisors meeting. <p>Recommendation</p> <ul style="list-style-type: none"> • Approval of the proposed ordinances is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 2.105 states that the Board of Supervisors shall act only by written ordinance or resolution.

Administrative Code Section 12P, known as the “Minimum Compensation Ordinance”, requires City contractors to pay minimum compensation to employees.

BACKGROUND

The City currently has a Minimum Compensation Ordinance that requires City contractors to provide their covered employees with no less than the minimum hourly compensation rate. The Minimum Compensation Ordinance was adopted by the Board of Supervisors in August 2000 and covers City contracts with nonprofit corporations, public entities and for-profit companies. Covered contracts include: professional services, construction, grants, Airport leases (including concession leases), and subcontracts.

The Minimum Compensation Ordinance requires covered contractors to:

- Pay a minimum wage to all covered employees¹ who work at least 4 hours per week; and
- Provide 12 days of paid holidays and other leave per year if the employee works full time for one year.

The Board of Supervisors adopted Ordinance 232-18 in October 2018, setting minimum compensation for employees of for-profit contractors with the City as of November 3, 2018 at \$17 per hour. The minimum compensation paid by City for-profit contractors is \$2 per hour more than the San Francisco minimum wage of \$15 per hour.

DETAILS OF PROPOSED LEGISLATION

File 17-0538 is an ordinance amending Administrative Code Section 12P to increase the minimum compensation for employees of (a) nonprofit organizations having contracts with the City to \$16 per hour as of July 1, 2019, plus an amount corresponding to the prior year’s increase in the Consumer Price Index (CPI); and (b) public entities, including In Home Supportive Services (IHSS), to \$17 per hour on the 60th day after enactment of the ordinance.

The minimum compensation amount for employees of nonprofit organizations and public entities would increase each year on July 1 by the CPI.

The ordinance also establishes working group to advise the Mayor and the Board of Supervisors on (a) wage equity between employees of nonprofit organizations working on City contracts who are paid minimum compensation and other employees of the nonprofit organizations; and (b) the impact of wage compaction, or reduction in the differential wages between workers receiving minimum compensation and higher-paid workers. The working group would be made

¹ Exempted employees include summer interns and participants in after-school programs, trainees and disabled workers as defined by federal regulations, and volunteers

up of representatives from the Controller's Office, Department of Public Health and Human Services Agency, nonprofit organizations, and labor organizations.

FISCAL IMPACT

Estimated costs to nonprofit organizations

According to the Controller's October 15, 2018 memorandum to the Board of Supervisors, the estimated increased cost to nonprofit organizations in FY 2019-20 to increase minimum compensation on July 1, 2019 to \$16 per hour (approximately \$0.50 per hour more than the estimated minimum wage on July 1, 2019 of \$15.50 per hour) is \$500,000. If nonprofit organizations increased the wages of higher-paid workers to maintain wage differentials and reduce wage compaction, the estimated costs to nonprofit organizations in FY 2019-20 is at least \$3.5 million.

The estimated increased cost to nonprofit organizations in FY 2019-20 to increase minimum compensation on July 1, 2019 to \$16.50 per hour (which adds a CPI adjustment of 3.3 percent to the \$16 per hour minimum compensation) is \$1.3 million. If nonprofit organizations increased the wages of higher-paid workers to reduce wage compaction, the estimated costs to nonprofit organizations in FY 2019-20 is at least \$7.0 million.

These estimates include costs to nonprofit organizations for employees working on City contracts but do not include potential costs due to wage increases for employees not working on City contracts. The City would have discretion on whether to fund the increased costs to nonprofit organizations due to increased minimum compensation or require nonprofit organizations to absorb the increased costs.

Estimated costs to In Home Supportive Services

As a result of SB 90 (2017), the State of California implemented a new county maintenance-of-effort in FY 2017-18 for the In Home Supportive Services (IHSS) program, increasing counties' contributions to IHSS costs. The proposed minimum compensation of \$17 per hour paid to IHSS workers, which is \$2 per hour more than the current minimum wage of \$15 per hour, will increase San Francisco's maintenance of effort. The Human Services Agency is finalizing estimates on the impact of the proposed minimum compensation increase on San Francisco's maintenance of effort. We will review these and provide estimates to the October 23, 2018 Board of Supervisors meeting.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller
Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Mayor London Breed
President Cohen and Members of the Board of Supervisors

FROM: Ben Rosenfield, Controller 

DATE: October 15, 2018

SUBJECT: Minimum Compensation Ordinance Non-Profit City Contractor Cost Analysis

The Controller's office has conducted additional research to estimate the costs of wage increases for non-profit organizations should the City revise the Minimum Compensation Ordinance (MCO).

To do so, we conducted a survey of non-profit City contractors, asking for information on an organization's budget, the share of its budget funded by City contracts, and full-time equivalent (FTE) counts within specific wage ranges for employees funded by City contracts and separately for employees funded by non-City contracts. We sent requests to complete the survey to 113 non-profit contractors and 42 provided complete responses. Respondents included large and small contractors across City service categories. These respondents have contracts with the City of approximately \$220 million, or 30% of the total value of all City non-profit contracts. City contracts with these organizations directly fund over 1,700 FTEs with wages below \$30 per hour. Of these, 20% earned less than \$17 per hour. Approximately 40% of responding organizations have no employees on City contracts earning less than \$17 per hour.

Using the wage information from this survey, we can more precisely estimate the cost of raising the MCO on the larger universe of contracted non-profit organizations. For illustration, we have estimated the annual impact of raising the MCO required hourly wage to \$16.00, \$16.50, and \$17.00 effective July 1, 2019. These costs are presented as increases above the cost of the minimum wage, which will increase from \$15.00 to approximately \$15.50 on July 1, 2019, after the code-required annual CPI increase on that date. These estimates do not include the cost of increasing wages for either for-profit contractors or In-Home Supportive Service workers.

2 | Minimum Compensation Ordinance Non-Profit Cost Analysis

Our analysis considers three resulting cost pressures for non-profit organizations, all or a portion of which would be passed along to the City in the form of higher costs. First, the "direct cost" of raising affected employees to a new required minimum wage level. Second, the "wage compaction" increases that may be required to maintain wage differentials for other workers on City contracts. Third, potential wage adjustments required for comparable employees on non-City contracts in these organizations. These costs are presented in the table and summary below.

Estimated Citywide Cost of an MCO Increase above Minimum Wage

City Contracts Only					
MCO Wage in FY 2019-20	Approximate Minimum Wage for FY 2019-20	MCO Wage Increase above Minimum Wage	MCO Direct Cost (No Wage Compaction) (\$ millions)	MCO Cost with Wage Compaction (\$ millions)	
				(Up to \$22.50/Hour)	(Up to \$27.50/Hour)
\$16.00		\$0.50	\$ 0.5	\$ 3.5	\$ 5.1
\$16.50	\$15.50	\$1.00	\$ 1.3	\$ 7.0	\$ 10.2
\$17.00		\$1.50	\$ 2.3	\$ 10.5	\$ 15.3

Non-City Contracts Only					
MCO Wage in FY 2019-20	Approximate Minimum Wage for FY 2019-20	MCO Wage Increase above Minimum Wage	MCO Direct Cost (No Wage Compaction) (\$ millions)	Cost with Wage Compaction (\$ millions)	
				(Up to \$22.50/Hour)	(Up to \$27.50/Hour)
\$16.00		\$0.50	\$ 0.3	\$ 3.2	\$ 4.9
\$16.50	\$15.50	\$1.00	\$ 0.8	\$ 6.5	\$ 9.8
\$17.00		\$1.50	\$ 1.6	\$ 9.7	\$ 14.7

Notes:

The minimum wage increases by CPI each year on July 1. The current minimum wage is \$15.00 per hour and is expected to increase to approximately \$15.50 on July 1, 2019.

City contract costs are the direct costs to programs funded through City contracts. Non-City contract costs are the costs non-profits would incur if they applied MCO wage rules to workers funded through non-City contracts.

Wage Compaction assumes all employees up to the given threshold receive a wage increase equal to the increase in the MCO above minimum wage.

The estimated costs for non-City contracts assumes that non-City contract costs for non-profits not included in the survey sample are proportional to the non-City contract costs for non-profits in the survey sample.

"Direct costs" are the costs associated with raising the wage of any employee earning less than the MCO wage requirement up to a new higher level. If the minimum wage is \$15.50 per hour and the MCO wage increased to \$17.00, the direct cost of raising the MCO is the cost of bringing all employees' wages from \$15.50 to \$17.00. Although this is a \$1.50 increase in the required level, some employees would not receive a full \$1.50 increase since they may have earned more than \$15.50 before the MCO increase. We estimate a \$2.3 million direct cost of raising non-profit employees to a \$17.00 level in fiscal year (FY) 2019-20. The direct cost of an increase to \$16.00 or \$16.50 is projected to be \$0.5 million or \$1.3 million, respectively.

3 | Minimum Compensation Ordinance Non-Profit Cost Analysis

A second cost element is "wage compaction." A raise for the lowest paid employees can lead to raises for higher paid employees because employers need to maintain reasonable wage differentials across their workforce. Unlike direct costs, however, there is no rule that determines the cost of wage compaction. Wage compaction costs depend on how far up the wage scale compaction extends and on how much of the MCO increase is provided to higher wage employees. For our cost estimates in the table above, we assume that employees making above the MCO but less than a given threshold would receive the same wage increase as employees below the MCO receive. We present two scenarios, one that extends wage compaction up to employees earning \$22.50 per hour, and another that extends it up to \$27.50 per hour. We estimate that the total cost (direct cost and wage compaction) of a \$17.00 wage would range between \$10.5 million and \$15.3 million. Costs at \$16.00 or \$16.50 would likely range between \$3.5 and \$5.1 million or \$7.0 and \$10.2 million, respectively.

The third potential cost impact relates to how a non-profit organization would manage equity between workers on City versus non-City contracts. For example, an organization could have two employees doing the same job, one funded through a City contract and the other funded by a non-City contract. While an increase to the MCO would legally only raise the wage of the first worker but not the other, the organization faces wage equity issues between these two employees and may feel obligated to raise the wage of both workers. As with wage compaction, there is no rule to determine MCO costs related to non-City contracts. Wage compaction could also be present with non-City contracts. Lastly, costs would depend on how far an MCO increase for City contracts would extend across non-City contracts. For non-City cost estimates, we used the non-City FTE counts provided by respondents and applied the same methodology as the City contract cost estimates.¹ We estimate that the extension of a \$17.00 MCO level to employees at these non-profit organizations that are not directly on City contracts would range between \$9.7 million and \$14.7 million. Costs at \$16.00 or \$16.50 would likely range between \$6.5 and \$9.8 million or \$9.7 and \$14.7 million, respectively.

The ultimate cost to the non-profit organizations and the City resulting from an increase in the minimum wage required by a MCO amendment will depend on consideration of these factors, and we believe final costs will likely fall within the cost ranges outlined above. Please feel free to contact me at (415) 554-7500 should you have further questions or comments.

¹ There is additional uncertainty in estimating potential non-City contract costs because we do not know the total value of non-City contract costs for organizations that did not respond to the survey. We assume, therefore, that the average share of an organization's budget that comes from City contracts is same for survey respondents and non-respondents.

Items 7 and 8
Files 17-0297 and 17-0538
(Continued from April 12, 2018)

Department:
 Office of Labor Standards Enforcement

EXECUTIVE SUMMARY

Legislative Objectives

- **File 17-0297** is an ordinance amending Administrative Code Section 12P to set the minimum hourly compensation rate for employees of City contractors, *other than nonprofit corporations or public entities*, at \$16.86 per hour on July 1, 2018.
- **File 17-0538** is an ordinance amending Administrative Code Section 12P for to set the minimum hourly compensation rate for employees of City contractors, *including employees of nonprofit corporations and public entities*, at \$16.86 per hour on July 1, 2018.

Key Points

- The City's Minimum Compensation Ordinance requires City contractors to pay their covered employees no less than the minimum hourly compensation rate and provide 12 days of paid time off each year. The proposed ordinances would set the hourly minimum compensation rate at \$16.86 per hour as of July 1, 2018, which is a \$1.86 more than the City's minimum wage for employees of all businesses in San Francisco of \$15.00 per hour.
- Currently, employees of nonprofit organizations and public entities having contracts with the City are subject to the Minimum Compensation Ordinance if "sufficient funds" are available. File 17-0297 sets the minimum hourly compensation rate for employees of nonprofit corporations and public entities having contracts with the City at the minimum wage rate required for employees of all San Francisco businesses. File 17-0538 applies the minimum compensation of \$16.86 per hour to all employees of nonprofit organizations and public entities that have contracts with the City.
- Although the proposed ordinance provides for minimum compensation to increase to \$15.86 as of July 1, 2017, the proposed ordinance is not retroactive.

Fiscal Impact

- According to the Controller's Office, the estimated cost to the City to apply the minimum compensation of \$16.86 per hour (or \$1.86 per hour above the minimum wage) to nonprofit and public contracts (File 17-0538) is \$44 million in FY 2018-19. If the Board of Supervisors were to approve a minimum compensation amount of less than \$1.86 per hour above the minimum wage, the costs to the City would be less, ranging from \$18 million for an increase of \$0.50 per hour to \$38 million for an increase of \$1.50 per hour.

Recommendations

- Amend the proposed ordinances to clarify that the approval of the minimum compensation rate is not retroactive.
- Approval of the proposed ordinances as amended is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 2.105 states that the Board of Supervisors shall act only by written ordinance or resolution.

Administrative Code Section 12P, known as the “Minimum Compensation Ordinance”, requires City contractors to pay minimum compensation to employees.

BACKGROUND

The City currently has a Minimum Compensation Ordinance that requires City contractors to provide their covered employees with no less than the minimum hourly compensation rate. The Minimum Compensation Ordinance was adopted by the Board of Supervisors in August 2000 and covers City contracts with nonprofit corporations, public entities and for-profit companies. Covered contracts include: professional services, construction, grants, Airport leases (including concession leases), and subcontracts.

The Minimum Compensation Ordinance requires covered contractors to:

- Pay a minimum wage to all covered employees¹ who work at least 4 hours per week; and
- Provide 12 days of paid holidays and other leave per year if the employee works full time for one year.

The Minimum Compensation Ordinance set the original minimum wage at \$9 per hour, increasing by 2.5 percent per year through 2005. The Board of Supervisors amended the Minimum Compensation Ordinance in 2007 to require annual Consumer Price Index (CPI) adjustments to the minimum wage on January 1 of each year. The minimum wage required by the Minimum Compensation Ordinance as of January 1, 2018 is \$14.02 per hour, which is \$0.02 per hour more than the San Francisco minimum wage required of all employers located in San Francisco of \$14.00.²

While employees of nonprofit organizations and public entities are covered by the Minimum Compensation Ordinance, the Minimum Compensation Ordinance states that the City will fund wage increases to contracts with nonprofit organizations and public entities only if “sufficient funds” are available. According to the Minimum Compensation Ordinance, a finding of “sufficient funds” shall mean that the City will not be required to reduce services in order to pay the wage increase. The minimum wage for employees of nonprofit organizations and public entities having contracts with the City is currently \$14 per hour, consistent with the minimum wage for all employees of San Francisco businesses.

¹ Exempted employees include summer interns and participants in after-school programs, trainees and disabled workers as defined by federal regulations, and volunteers

² The minimum wage required by the Minimum Compensation Ordinance applies only to employees of City contractors, as defined by Administrative Code Section 12P. In addition, San Francisco voters approved a minimum wage that applies to all San Francisco employers. In November 2014, the voters approved Proposition J, raising the San Francisco minimum wage to \$15 per hour by 2018.

DETAILS OF PROPOSED LEGISLATION

The May 4, 2017 Budget and Finance Committee considered an ordinance setting the minimum compensation hourly rate at \$15.86 per hour on July 1, 2017, and \$16.86 per hour on July 1, 2018 (File 17-0297). File 17-0297 was duplicated and amended in committee. File 17-0297 was re-referred to committee by the Board of Supervisors at the May 16, 2017 meeting. The duplicated file – File 17-0538 – was continued to the call of the chair at the May 11, 2017 Budget and Finance Committee meeting.

File 17-0297 is an ordinance amending Administrative Code Section 12P to set the minimum hourly compensation rate for employees of City contractors, *other than nonprofit corporations or public entities*, at \$16.86 per hour on July 1, 2018. The hourly compensation rate would be adjusted on July 1 of each following year by the CPI.

The proposed ordinance sets the minimum hourly compensation rate for employees of nonprofit corporations and public entities having contracts with the City at the minimum wage rate required for employees of all San Francisco businesses.³

File 17-0538 is an ordinance amending Administrative Code Section 12P for employees of City contractors, *including employees of nonprofit corporations and public entities*, at \$16.86 per hour on July 1, 2018. The hourly compensation rate would be adjusted on July 1 of each following year by the CPI.

Other Provisions

File 17-0297 and File 17-0538 would remove the requirement that employees covered by the Minimum Compensation Ordinance work a minimum of 4 hours per week. All employees working on a City contract would be covered by the Minimum Compensation Ordinance regardless of the hours worked.⁴

File 17-0297 and File 17-0538 both provide for minimum compensation to increase to \$15.86 per hour on July 1, 2017. However, the proposed ordinances are not retroactive; therefore, if the Board of Supervisors approves the proposed ordinance, the hourly minimum compensation of \$16.86 would go into effect on July 1, 2018.

FISCAL IMPACT**File 17-0538**

Currently, nonprofit and public contractors with the City pay the minimum wage, which is \$15.00 per hour as of July 1, 2018. The proposed ordinance would require nonprofit and public

³ The ordinance does not change the existing Administrative Code provisions for the Mayor to report to the Board of Supervisors on funding CPI increases in the proposed budget for City contracts with nonprofit corporations and entities.

⁴ Currently, employees working on a City contract but located in the United States outside of City-owned property must work a minimum of 10 hours per week to be covered by the MCO. The proposed legislation removes this provision so that all employees working on a City contract, regardless of the number of hours worked, would be covered by the Minimum Compensation Ordinance.

contractors with the City to pay minimum compensation of \$16.86 per hour as of July 1, 2018, or \$1.86 per hour more than the minimum wage of \$15.00 per hour.

According to estimates by the Controller’s Office, the estimated cost to the City to apply the minimum compensation of \$16.86 per hour (or \$1.86 per hour above the minimum wage) to nonprofit and public contracts is \$44 million in FY 2018-19, as shown in the Table below. If the Board of Supervisors were to approve a minimum compensation amount of less than \$1.86 per hour above the minimum wage, the costs to the City would be less, ranging from \$18 million for an increase of \$0.50 to \$38 million for an of \$1.50, as shown in the Table below.

Table: Estimated Costs of Minimum Compensation for Nonprofit and Public Contract Employees in FY 2018-19

	Hourly Rate Above Minimum Wage			
	\$0.50	\$1.00	\$1.50	\$1.86
In Home Supportive Services - Wage Increase	\$6,000,000	\$12,000,000	\$18,000,000	\$22,000,000
In Home Supportive Services - Paid Time Off	9,000,000	9,000,000	9,000,000	9,000,000
Nonprofit Providers - City's Direct Contract Cost	3,000,000	700,000	11,000,000	13,000,000
Total	\$18,000,000	\$21,700,000	\$38,000,000	\$44,000,000

Source: Controller

RECOMMENDATIONS

1. Amend the proposed ordinances to clarify that the approval of the minimum compensation rate is not retroactive.
2. Approval of the proposed ordinances as amended is a policy matter for the Board of Supervisors.

MCO Cost Estimates

File # 170297
170538
Received in Committee
4/12/18
fm.

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Costs were estimated for two groups of affected workers:

1. Approximately 20,000 IHSS workers.

The cost is estimated on the wage increase from \$15.00 to \$16.86, adjusted for state formula funding provided to the City.

Under the current MCO, the value of PTO (paid time off) counts toward the MCO wage. The ordinance under consideration (file 170538) would require that the value of PTO be in addition to the hourly wage. Including wages in lieu of PTO would raise the wage to \$17.64 ($\$15.00 + \$1.86 + \0.78).

2. Approximately 1,700 FTEs at organizations with contracts at the Department of Public Health and approximately 500 childcare workers.

The cost is estimated on the wage increase from \$15.00 to \$16.86 for affected FTEs, and an additional adjustment for wage compression. Does not include wage-related benefit costs such as employer social security taxes (6.2%).

MCO Cost Estimates

Cost Estimates of the Proposed MCO up to an additional \$1.86

	<u>\$0.50</u>	<u>\$1.00</u>	<u>\$1.50</u>	<u>\$1.86</u>
IHSS - Wages + \$1.86	\$6	\$12	\$18	\$22
IHSS - Wages + \$2.64 (PTO in lieu added to MCO)	\$9	\$9	\$9	\$9
Non-profit providers - Direct city contract cost	\$3	\$7	\$11	\$13
	\$18	\$28	\$37	\$44

Wong, Linda (BOS)

From: Council of Community Housing Organizations <ccho@sfcic-409.org>
Sent: Wednesday, April 11, 2018 3:41 PM
To: Cohen, Malia (BOS); Fewer, Sandra (BOS); Stefani, Catherine (BOS); Wong, Linda (BOS)
Subject: April 12 Budget Committee Item 8 - Minimum Compensation Ordinance (MCO)
Attachments: CCHO letter - MCO 4-11-2018.pdf

Dear Supervisor Cohen:

CCHO believes the City's low-wage workers should earn more, including for nonprofit workers. Together with our sister organization the Human Services Network (HSN), we worked closely with the City and labor allies to support the increase to San Francisco's minimum wage, and we support MCO increases for airport and other for-profit contract workers.

However, the current proposal to extend the MCO to city-funded nonprofit contractors, whether or not the additional costs are reimbursed, may create unintended consequences, including possibly reductions in service, layoffs, or financial stress. Unlike for-profit entities, nonprofit service and housing providers cannot simply raise prices to cover the additional 12.4% wage mandate, the effects of wage compression, and equitable raises for non-contract employees.

Our housing providers participated in a survey conducted by HSN that analyze the cost impacts. The sampling of 34 organizations demonstrated an aggregate annual full-cost impact of \$19 million. The financial impact for increasing wages for workers not covered by city contracts totals \$6.2 million. Housing providers are disproportionately impacted, with over \$4 million in unfunded cost increases. Therefore, we ask the Board of Supervisors to either:

(1) Exclude the nonprofit sector from the MCO legislation, as in the current law, OR

(2) Delay passage of the MCO, and convene an adequate community process to bring all the stakeholders to one table, work out details that can work for nonprofits and the City, and develop a revenue plan to identify adequate funding sources. That kind of process worked for the minimum wage ordinance and resulted in broad consensus. It is a sensible and inclusive process that can work again here.

Sincerely, Peter Cohen and Fernando Martí

Co-directors, Council of Community Housing Organizations

cc: Sup. Sandra Fewer, Sup. Catherine Stefani, Committee Clerk Linda Wong

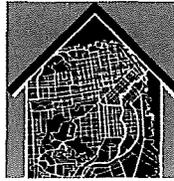
Council of Community Housing Organizations

Celebrating 40 years as the voice of San Francisco's affordable housing movement

325 Clementina Street, San Francisco 94103

415-882-0901 office

www.sfccho.org



COUNCIL OF COMMUNITY HOUSING ORGANIZATIONS

*The voice of San Francisco's
affordable housing movement*

April 11, 2018

Supervisor Malia Cohen
Board of Supervisors Budget and Finance Committee Chair
City Hall, Rm. 279
San Francisco, CA 94102

Re: Item 8 - Proposed Minimum Compensation Ordinance (MCO) nonprofit rate increase

Dear Supervisor Cohen:

CCHO believes the City's low-wage workers should earn more, including for nonprofit workers. Together with our sister organization the Human Services Network (HSN), we worked closely with the City and labor allies to support the increase to San Francisco's minimum wage, and we support MCO increases for airport and other for-profit contract workers.

However, the current proposal to extend the MCO to city-funded nonprofit contractors, whether or not the additional costs are reimbursed, may create unintended consequences, including possibly reductions in service, layoffs, or financial stress. Unlike for-profit entities, nonprofit service and housing providers cannot simply raise prices to cover the additional 12.4% wage mandate, the effects of wage compression, and equitable raises for non-contract employees.

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- (1) Exclude the nonprofit sector from the MCO legislation, as in the current law, OR
- (2) Delay passage of the MCO, and convene an adequate community process to bring all the stakeholders to one table, work out details that can work for nonprofits and the City, and develop a revenue plan to identify adequate funding sources. That kind of process worked for the minimum wage ordinance and resulted in broad consensus. It is a sensible and inclusive process that can work again here.

Sincerely,

Peter Cohen and Fernando Martí
Co-directors, Council of Community Housing Organizations

cc: Sup. Sandra Fewer, Sup. Catherine Stefani, Committee Clerk Linda Wong

325 Clementina Street, San Francisco, CA 94103 | ccho@sfc-409.org | 415.882.0901

The Council of Community Housing Organizations (CCHO) is a coalition of 24 community-based housing developers, service providers and tenant advocates. We fight for funding and policies that shape urban development and empower low-income and working-class communities. The work of our member organizations has resulted in nearly 30,000 units of affordable housing, as well as thousands of construction and permanent jobs for city residents.

Wong, Linda (BOS)

From: Joe Wilson <jwilson@hospitalityhouse.org>
Sent: Thursday, April 12, 2018 11:59 AM
To: Wong, Linda (BOS)
Subject: Fwd: Human Services Network & Minimum Compensation Ordinance
Attachments: April 12 HSN letter.docx

Thank you.
Joe Wilson

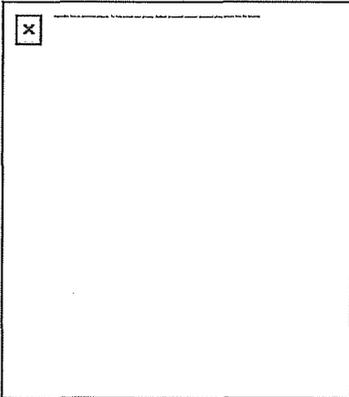
----- Forwarded message -----

From: **Joe Wilson** <jwilson@hospitalityhouse.org>
Date: Thu, Apr 12, 2018 at 11:57 AM
Subject: Human Services Network & Minimum Compensation Ordinance
To: malia.cohen@sfgov.org, sandra.fewer@sfgov.org, "Stefani, Catherine" <catherine.stefani@sfgov.org>, norman.yee@sfgov.org, jeff.sheehy@sfgov.org
Cc: sophia.kittler@sfgov.org, "Pagoulatos, Nickolas (BOS)" <nickolas.pagoulatos@sfgov.org>, "Boilard, Chelsea (BOS)" <chelsea.boilard@sfgov.org>, jack.gallagher@sfgov.org, sharon.johnson@sfgov.org

Thank you for your consideration.
Sincerely,

Joe Wilson

Joseph T. Wilson
Executive Director



290 Turk Street
San Francisco, CA 94102
ph.: 415.749.2111
fax: 415.749.2136
www.hospitalityhouse.org



April 12, 2018

Supervisor Malia Cohen
Chair, Board of Supervisors Budget and Finance Committee
City Hall, Rm. 279
San Francisco, CA 94102

Re: Proposed Minimum Compensation Ordinance (MCO) nonprofit rate increase

Dear Supervisor Cohen:

Hospitality House, a member of the San Francisco Human Services Network (HSN) is writing as a follow-up to HSN's recent meetings with Supervisors, and our letter to Mayor Mark Farrell dated February 28, 2018 and copied via email to the Board.

As we've discussed, HSN supports the 7% minimum wage increase that will bring the MCO rate to \$15 per hour in July, as well as MCO increases for airport and other for-profit contract workers. However, an additional 12.4% wage mandate on nonprofit contractors could create potential unintended consequences including service reductions, layoffs, and other unanalyzed tradeoffs. HSN's specific asks are:

- **Amend the proposed MCO legislation to exempt the nonprofit sector**
- Should nonprofits remain in the legislation, **delay passage of the MCO** until the City conducts an adequate community process
- We believe an appropriate engagement model is the process utilized with the recently-passed Minimum Wage Ordinance – that involved various stakeholder groups, including the nonprofit sector, to reach the desired outcome to benefit low-wage workers.

HSN conducted a sampling of dozens of health, human service and housing organizations and documented a first-year full-cost impact of \$19 million – far greater than the Controller's estimated \$13 million "direct city contract cost" for the entire sector. For some, the full cost could dramatically harm their financial stability, and their ability to provide much-needed services for San Franciscans.

We stand ready to fully participate in ongoing discussions regarding continued economic inequality in the San Francisco Bay Area, and we applaud your commitment

to engage various stakeholders in crafting solutions that are feasible, beneficial, and sustainable.

Respectfully,

Joseph T. Wilson, Executive Director
Hospitality House

CC: Budget and Finance Committee

<p>Items 8 and 9 Files 17-0297 and 17-0538</p>	<p>Department: Office of Labor Standards Enforcement</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • File 17-0297 is an ordinance amending Administrative Code Section 12P to set the minimum hourly compensation rate for employees of City contractors, <i>other than nonprofit corporations or public entities</i>, at \$16.86 per hour on July 1, 2018. • File 17-0538 is an ordinance amending Administrative Code Section 12P for to set the minimum hourly compensation rate for employees of City contractors, <i>including employees of nonprofit corporations and public entities</i>, at \$16.86 per hour on July 1, 2018. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • The City’s Minimum Compensation Ordinance requires City contractors to pay their covered employees no less than the minimum hourly compensation rate and provide 12 days of paid time off each year. The proposed ordinances would set the hourly minimum compensation rate at \$16.86 per hour as of July 1, 2018, which is a \$1.86 more than the City’s minimum wage for employees of all businesses in San Francisco of \$15.00 per hour. • Currently, employees of nonprofit organizations and public entities having contracts with the City are subject to the Minimum Compensation Ordinance if “sufficient funds” are available. File 17-0297 sets the minimum hourly compensation rate for employees of nonprofit corporations and public entities having contracts with the City at the minimum wage rate required for employees of all San Francisco businesses. File 17-0538 applies the minimum compensation of \$16.86 per hour to all employees of nonprofit organizations and public entities that have contracts with the City. • Although the proposed ordinance provides for minimum compensation to increase to \$15.86 as of July 1, 2017, the proposed ordinance is not retroactive. 	
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<p style="text-align: center;">Recommendations</p>	
<ul style="list-style-type: none"> • Amend the proposed ordinances to clarify that the approval of the minimum compensation rate is not retroactive. • Approval of the proposed ordinances as amended is a policy matter for the Board of Supervisors. 	

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FISCAL IMPACT

File 17-0538

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Total	\$18,000,000	\$21,700,000	\$38,000,000	\$44,000,000

Source: Controller

RECOMMENDATIONS

1. Amend the proposed ordinances to clarify that the approval of the minimum compensation rate is not retroactive.
2. Approval of the proposed ordinances as amended is a policy matter for the Board of Supervisors.

Introduction Form

By a Member of the Board of Supervisors or Mayor

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

2018 OCT -2 PM 1:55
Time stamp

BY JB or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning : "Supervisor [] inquiries"
- 5. City Attorney Request.
- 6. Call File No. [170538] from Committee.
- 7. Budget Analyst request (attached written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Topic submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission
- Youth Commission
- Ethics Commission
- Planning Commission
- Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.

Sponsor(s):

Fewer; Kim, Ronen, Yee

Subject:

Administrative Code - Increasing the Minimum Compensation Hourly Rate

The text is listed:

Ordinance amending the Administrative Code to increase the minimum hourly compensation rate for employees of City contractors \$16.86 per hour on July 1, 2018, and followed thereafter by annual cost-of-living increases; and to require that City contractors pay the minimum hourly compensation rate to employees who perform any work funded under an applicable contract with the City.

Signature of Sponsoring Supervisor:

Sandra W. Fewer

For Clerk's Use Only

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of 25

2010
Mary Yee
Kelly Rane