

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

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: May 4, 2017 Budget and Finance Committee Meeting

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Item 1 File 17-0297	Department: Office of Labor Standards Enforcement
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed ordinance would amend Administrative Code Section 12P to increase the minimum wage required by the City’s Minimum Compensation Ordinance as of (1) July 1, 2017 from \$14 per hour to \$15.86 per hour, and (2) July 1, 2018 from \$15.86 per hour to \$16.86 per hour. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The City currently has a minimum compensation ordinance (MCO) that requires City contractors to provide their covered employees with no less than the MCO hourly compensation rate and provide 12 days of paid time off each year. • The proposed ordinance would increase the hourly minimum wage required by the MCO for the employees of for-profit City contractors from \$14 to \$15.86 as of July 1, 2017 and to \$16.86 as of July 1, 2018. In addition, the proposed ordinance would eliminate the requirement that employees of City contractors work at least four hours per week. • Currently, employees of nonprofit organizations and public entities having contracts with the City are subject to the MCO, if “sufficient funds” are available, as noted above. The proposed ordinance would eliminate this provision but employees of nonprofit organizations and public entities would still be covered by the City’s minimum wage, which increases from the current rate of \$13 per hour to \$14 per hour on July 1, 2017. • Currently, employees of contractors and lessees operating at the Airport are covered by the MCO in the same manner as all other employees of City contractors. Under the proposed ordinance, MCO minimum wage requirements for employees of businesses working at the Airport would be phased in; the minimum wage under the MCO would increase as of (a) July 1, 2017 from \$14 per hour to \$14.39 per hour; (b) on January 1, 2018 from \$14.39 per hour to \$15.86 per hour; and (c) on July 1, 2018 from \$15.86 per hour to \$16.86 per hour. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Increased costs as a result of paying increased minimum wage rates under the proposed ordinance could result in increased costs of future City contracts. However, any increased contract costs to the City as a result of paying minimum wage rates are dependent on future City contractors’ bids, and the extent to which higher wage rates may result in higher contractor bids. <p style="text-align: center;">Recommendation</p> <p>Approval of the proposed ordinance is a policy matter for the Board of Supervisors.</p>	

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 (MCO) that requires City contractors to provide their covered employees with no less than the MCO hourly compensation rate. The MCO 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 MCO set the original minimum wage at \$9 per hour, increasing by 2.5 percent per year through 2005. The Board of Supervisors amended the MCO 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 MCO as of January 1, 2017 is \$13.64 per hour, which will increase to \$14 per hour on July 1, 2017 to conform to the San Francisco minimum wage required of all employers located in San Francisco.²

While employees of nonprofit organizations and public entities are covered by the MCO, the MCO 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 MCO, 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 \$13 per hour.

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 MCO 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. The current minimum wage is \$13 per hour, increasing to \$14 per hour on July 1, 2017.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Administrative Code Section 12P to increase the hourly compensation rate required by the City's Minimum Compensation Ordinance for the employees of for-profit City contractors as of (1) July 1, 2017 from \$14 per hour to \$15.86 per hour, and (2) July 1, 2018 from \$15.86 per hour to \$16.86 per hour. That hourly compensation rate would be adjusted on July 1 of each following year by the Consumer Price Index.

Other proposed changes to the Minimum Compensation Ordinance are as follows:

- Currently an employee covered by the MCO must work a minimum of 4 hours per week. The proposed ordinance removes this minimum work requirement; all employees working on a City contract would be covered by the MCO regardless of the hours worked.³
- Currently, employees of nonprofit organizations and public entities having contracts with the City are subject to the MCO, if "sufficient funds" are available, as noted above. The proposed ordinance would eliminate this provision but employees of nonprofit organizations and public entities would still be covered by Administrative Code Section 12R.4, which requires all businesses in San Francisco to pay the City's minimum wage. As noted above, under the existing provisions of the Administrative Code, the City's minimum wage increases from the current rate of \$13 per hour to \$14 per hour on July 1, 2017, and to \$15 per hour on July 1, 2018.
- Currently, employees of contractors and lessees operating at the Airport are covered by the MCO in the same manner as all other employees of City contractors. Under the proposed ordinance, MCO hourly compensation rate requirements for employees of businesses working at the Airport would be phased in; the hourly compensation rate under the MCO would increase as of (a) July 1, 2017 from \$14 per hour to \$14.39 per hour; (b) on January 1, 2018 from \$14.39 per hour to \$15.86 per hour; and (c) on July 1, 2018 from \$15.86 per hour to \$16.86 per hour.

FISCAL IMPACT

The proposed ordinance would increase the minimum wage for all employees of for-profit businesses having contracts with the City which provide professional services, general services, and construction services, and for all employees of Airport contractors and lessees. Increased costs as a result of paying increased minimum wage rates under the proposed ordinance could result in increased costs of future City contracts. However, any increased contract costs to the City as a result of paying minimum wage rates are dependent on future City contractors' bids, and the extent to which higher wage rates may result in higher contractor bids.

RECOMMENDATION

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

³ 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 MCO.