




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.

Our analysis considers three resulting cost pressures for non-profit organizations, all or a portion of which would be passed along 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.**

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.