


**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

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**TO:** Government Audit and Oversight Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** October 16, 2025 Government Audit and Oversight Committee Meeting

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**Item 1**  
**File 25-0210**

**Department:**  
Airport

## **EXECUTIVE SUMMARY**

### **Legislative Objectives**

- The proposed ordinance would amend the Labor and Employment Code to require QSP employers to make “Irrevocable Health Care Expenditures” on behalf of their employees at tiered rates reflecting the employee’s household size, beginning January 1, 2026.
- Further, the legislation allows employers to waive the requirement for an irrevocable health care expenditure through a collective bargaining agreement.

### **Key Points**

- In December 1999, the Airport Commission adopted the Quality Standards Program (QSP), which now includes a set of minimum standards for hiring, training, performance management, and compensation and benefits of employees covered by the QSP. The QSP applies to any firm, including airlines and service providers, which employs personnel involved in performing services which directly impact safety and/or security at the Airport.
- In 2020, the City enacted the Healthy Airport Ordinance (File 20-1133), which amended the Health Care Accountability Ordinance to require employees covered by the QSP to provide family health insurance to such employees, or to make contributions on the employees’ behalf to a medical reimbursement account.
- The irrevocable health care expenditure is proposed to replace the option of providing health insurance or making contributions to medical reimbursement accounts. It would still allow for QSP employers to meet the spending requirement in those ways but also allow for any other type of irrevocable healthcare spending, such as direct payments to employees to reimburse their health care spending.

### **Fiscal Impact**

- The new spending requirements would increase healthcare costs to three Airport contractors by approximately \$270,000 per year.
- In addition, the proposed changes in health care spending requirements could impact businesses that operate at the Airport and have QSP employees but that do not have a contract with the Airport, however we are unable to estimate those impacts.

### **Recommendation**

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

**MANDATE STATEMENT**

According to City Charter Section 2.105, all legislative acts shall be by ordinance and require the affirmative vote of at least a majority of the members of the Board of Supervisors.

**BACKGROUND**

The Health Care Accountability Ordinance (HCAO), Article 121 of the Labor and Employment Code, requires employers to offer individual health plan benefits to their covered employees or to make payments to the Department of Public Health (DPH). The HCAO applies to most City contractors and tenants, including those at San Francisco International Airport (Airport), as well as certain Airport permittees.

In December 1999, the Airport Commission adopted the Quality Standards Program (QSP), which now includes a set of minimum standards for hiring, training, performance management, and compensation and benefits of employees covered by the QSP. The QSP applies to any firm, including airlines and service providers, which employs personnel involved in performing services which directly impact safety and/or security at the Airport. According to Airport management, the QSP has been successful in helping to recruit high-quality employees and reducing turnover.

In 2020, the City enacted the Healthy Airport Ordinance (File 20-1133), which amended the Health Care Accountability Ordinance to require employees covered by the QSP to provide family health insurance to such employees, or to make contributions on the employees' behalf to a medical reimbursement account established under the Health Care Security Ordinance (now Article 21 of the Labor and Employment Code). Prior to the enactment of the Healthy Airport Ordinance, Airport management reports that some collective bargaining agreements waived the health benefit requirement, resulting in some QSP employees having only minimal health care coverage.

Exhibit 1 below summarizes the current regulations for San Francisco-based businesses and contractors that the City has imposed related to health care spending.

**Exhibit 1: Health Care Spending Requirements for San Francisco Businesses, City Contractors, and Businesses Operating at the Airport**

Authority	Applies to	Employer Health Care Options	2025 Rate
Health Care Security Ordinance (HCSO), Labor & Employment Code 21	SF employers with 20+ employees	Payments for health, dental, and/or vision insurance  Payments to the SF City Option, a medical reimbursement account  Contributions to programs that reimburse employees for out-of-pocket health care costs	20-99 emps: \$2.56/hour  100+ emps: \$3.85/hour
Health Care Accountability Ordinance (HCAO), Labor & Employment Code 121	Most City contractors and tenants (including at the Airport and the Port)	Offer health plan benefits to their covered employees  Make payments to the City for use by the Department of Public Health, or  Make payments directly to their covered employees	\$7.50 per hour, capped at \$300 per work week
Healthy Airport Ordinance (BOS File 20-1133), part of Health Care Accountability Ordinance	Airport Quality Standards Program (QSP) Employers (select employees operating at the Airport subject to the QSP)	Provide family health insurance at no cost, or  Pay into medical reimbursement accounts, administered by DPH	\$12.15 per hour, capped at \$486 per week

Source: Labor and Employment Code, OLSE

Airlines for America, an airline trade association, sued the City and County of San Francisco in 2021 over the Healthy Airport Ordinance, arguing that it conflicts with federal law and contracts clauses of the state and federal constitutions. The Healthy Airport Ordinance is currently in effect, and the litigation is ongoing as of this writing.

### DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Labor and Employment Code to require QSP employers to make “Irrevocable Health Care Expenditures” on behalf of their employees at tiered rates reflecting the employee’s household size, beginning January 1, 2026. For each tier, the proposed ordinance sets minimum expenditure levels—similar to the City’s Health Care Security Ordinance, which applies to all San Francisco employers with 20 or more employees. An “irrevocable expenditure” is defined as any amount of health care expenditure that has not been

retained by and cannot be recovered or returned to the employer. This may include health insurance, medical reimbursement accounts, or other health care related spending. The legislation specifies the following tiered rate structure for a San Francisco airport service employee subject to the QSP:

- Airport employee with no health care dependents should receive \$6.17 per hour worked up to a maximum of \$246.80 per week;
- Airport employee with one health care dependent should receive \$12.33 per hour worked up to a maximum of \$493.20 per week; and
- Airport employee with two or more health care dependents should receive \$17.44 per hour worked up to a maximum of \$697.60 per week.

The proposed ordinance gives the Health Director the authority to annually increase the hourly rate and weekly maximum irrevocable health care expenditure rate based on changes since the prior year in the Bureau of Labor Statistics Consumer Price Index for Medical Care in the San Francisco Bay Area or in average Health Maintenance Organization premiums in California. The irrevocable health care expenditure is proposed to replace the option of providing health insurance or making contributions to medical reimbursement accounts. It would still allow for QSP employers to meet the spending requirement through providing insurance or medical reimbursement accounts but also allow for any other type of irrevocable healthcare spending, such as direct payments to employees to reimburse their health care spending.

Further, the legislation allows employers to waive the requirement for an irrevocable health care expenditure through a collective bargaining agreement, similar to the Health Care Accountability Ordinance.

#### **FISCAL IMPACT**

The proposed ordinance would result in direct cost increases to Airport service contracts. The Airport provided healthcare spending data for three contracts the Airport has with Covenant Airport Security for general airport security services, Hallmark Aviation Services (Hallmark) for guest assistance services, and SITA for passenger processing and information displays, which each have QSP employees. For each of these three contracts, we show the current and proposed costs for health care in Exhibit 2 below.

**Exhibit 2: Change in Airport Contractor Spending**

<b>Employer</b>	<b>Current Health Care Spending<sup>1</sup></b>	<b>Proposed Health Care Spending</b>	<b>Change</b>
Covenant	\$724,459	\$835,598	\$111,139
Hallmark	\$311,458	\$470,288	\$158,830
SITA	\$25,054	\$25,646	\$592
<b>Total</b>	<b>\$1,060,970</b>	<b>\$1,331,532</b>	<b>\$270,562</b>

<sup>1</sup> Health care spending data for the three pass-through contracts was provided by the airport, and the BLA has added 10 percent to those figures to account for health care inflation by the time the ordinance is proposed to go into effect on January 1, 2026. Not all employees of each vendor are QSP employees.

Source: BLA estimates of impact, based on data from Airport.

As shown above, the proposed ordinance would increase required health care spending for three Airport contractors by approximately \$270,561, or by \$3,811 per employee. These costs would likely be passed through to the Airport by the contractors over time.

In addition, the proposed changes in health care spending requirements could impact businesses that operate at the Airport and have QSP employees but that do not have a contract with the Airport. The Airport reports that there were 16,203 QSP employees in 2024. It is not known how many of these employees have no health care dependents, one dependent, or two or more dependents. In addition, because a portion of these employees are less than full-time and may already be provided with health care spending in excess of the proposed ordinance's requirements, we cannot estimate the financial impact to all QSP employees.

### RECOMMENDATION

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