

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

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October 22, 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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<b>Item 32</b> <b>File 17-0538</b>	<b>Department:</b> Office of Labor Standards Enforcement
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <p><b>File 17-0538</b> 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 60<sup>th</sup> 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 style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The State 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. According to Mr. Dan Kaplan, Human Services Agency Deputy Director for Administration, increasing the minimum compensation for IHSS workers to \$17 per hour on January 1, 2019, and with CPI on each July 1 thereafter would raise the IHSS Maintenance of Effort (MOE) payment that San Francisco is required to make by an estimated \$12,417,676 in FY 2018-19 and \$26,859,496 in FY 2019-20. HSA estimated that the CPI for FY 2019-20 would result in a wage increase of \$0.50 per hour on July 1 2019.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>• Approval of the proposed ordinances is a policy matter for the Board of Supervisors.</li> </ul>	

## 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 employees<sup>1</sup> 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 60<sup>th</sup> 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

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<sup>1</sup> 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. According to Mr. Dan Kaplan, Human Services Agency Deputy Director for Administration, increasing the minimum compensation for IHSS workers to \$17 per hour on January 1, 2019, and with CPI on each July 1 thereafter would raise the IHSS Maintenance of Effort (MOE) payment that San Francisco is required to make by an estimated \$12,417,676 in FY 2018-19 and \$26,859,496 in FY 2019-20. According to Mr. Kaplan, HSA estimated that the CPI for FY 2019-20 would result in a wage increase of \$0.50 per hour on July 1 2019.<sup>2</sup>

## **RECOMMENDATION**

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

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<sup>2</sup> An increase of \$0.50 per hour is based on an estimated CPI in FY 2019-20 of 3.3 percent. A CPI of less than 3.3 percent would result in a lower wage increase and a CPI of more than 3.3 percent would result in a higher wage increase.