

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: May 12, 2015

TO: Honorable Members of the City Council

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**POLICY ELEMENTS
FOR A CITYWIDE MINIMUM WAGE**

SUMMARY

At its meeting of October 28, 2014, the Economic Development Committee (Committee) considered a Motion (Bonin-Buscaino-Martinez-Price-Koretz-Krekorian, CF# 14-1371, Attachment A) which would impose a living wage of \$13.25 for all employees working in the City by July 1, 2017. Motion further sought a study of impacts associated with increasing the minimum wage to \$15.25 by 2019.

The Committee also considered a Motion (O'Farrell-Blumenfield-Krekorian-Martinez-Fuentes, CF #14-1371-S2, Attachment B) that instructed the City Administrative Officer and Chief Legislative Analyst to commission a study of minimum wage policies and issues to inform the Council's deliberations, including analysis of impacts on small businesses and non-profits.

Following public testimony and discussion, the Committee instructed the CAO and CLA to commission a study of the policy issues associated with the minimum wage proposals included in both Motions, as well as other issues identified by the Committee and included on the public record.

In response to Committee instructions, the CAO and CLA conducted a competitive bidding process to retain a consultant to prepare the required study. The process resulted in the selection of the Institute for Research on Labor and Employment (IRLE) at the University of California, Berkeley.

In January 2015, the Chairman of the Economic Development Committee released a letter requesting that other organizations submit studies related to the proposed minimum wage policy. The intent was to receive additional input on the issue and ensure that the City Council had as much information and perspective as possible to inform the policy consideration. As a result of this process, the City received the following three reports:

- IRLE submitted "The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options;"
- Beacon Economics submitted "Cost-Benefit Analysis: Los Angeles Minimum Wage Proposal;" and
- The Economic Roundtable submitted "Los Angeles Rising: A City That Works for Everyone."

The Chairman of the Economic Development Committee also directed the CLA and CAO to commission a peer review of all studies submitted for Council consideration. The team of Drs. Till von Wachter and Jeffrey Wenger, economists with UCLA and the University of Georgia, was selected to complete this report. Their report titled "Technical Review of Studies Related to the Citywide Minimum Wage Proposal in the City of Los Angeles" was considered by the Committee on May 5, 2015.

In addition to the Committee instructions, letters were submitted to the public record by several Councilmembers. These include:

- October 28, 2014 O'Farrell
- October 28, 2014 Bonin
- December 30, 2014 Blumenfield-Fuentes-Krekorian-O'Farrell
- March 1, 2015 Blumenfield
- March 24, 2015 Bonin
- March 24, 2015 Blumenfield-Fuentes-O'Farrell
- April 30, 2015 O'Farrell-Blumenfield

Finally, the Economic Development Committee held public hearings throughout the City to receive testimony concerning the minimum wage proposals and the studies conducted by IRLE, Beacon Economics, Economic Roundtable, and Drs. von Wachter and Wenger. The public provided extensive testimony at those hearings. Additional testimony and comments were provided in writing.

At the meeting of May 5, 2015, the Committee requested that the CLA provide an overview report that describes the range of options associated with a minimum wage policy. This document provides an outline of the major decision points with regard to the structure of a minimum wage ordinance, should the Committee choose to move forward with such a policy.

RECOMMENDATION

That the City Council, if it chooses to establish a Citywide minimum wage:

1. Request the City Attorney prepare and present an ordinance to establish a Citywide minimum wage;

2. Instruct the CAO to work with the appropriate department(s) to determine the staffing level needed to implement a Citywide minimum wage law.

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A. CITY APPROACH TOWARD MINIMUM WAGE

The City has several minimum wage policy options. The City could continue to rely on State and federal lawmakers to set and adjust the minimum wage. The State Legislature is currently considering SB 3 (Leno) which would increase the California minimum wage to \$13.00 by 2017. A similar bill was considered by the legislature in the last session, but it failed to pass the Assembly. The City could adopt a position relative to State and federal minimum wage laws and actively pursue adoption of such legislation.

The City could also adopt a local minimum wage that would be effective only if the State fails to increase the minimum wage. The City adopted a similar strategy with regard to a ban on plastic shopping bags. In this approach, a local minimum wage ordinance would be effective at a given date, unless the State adopts a minimum wage increase that satisfies certain conditions.

Finally, the City could adopt a local minimum wage that is independent of the rates adopted by the State and federal governments.

ACTION	
A.1	Which policy position shall the City pursue concerning the minimum wage?
--	No change. Rely on State and federal legislators to establish the minimum wage.
--	No change, but pursue State and federal legislation to increase the minimum wage.
--	Adopt a City minimum wage that is effective by a date certain unless the State implements a minimum wage increase that meets certain criteria (target rate within a certain time frame).
--	Implement a City minimum wage.

If the Council chooses to implement a City minimum wage policy, several elements would be essential to the policy's structure. The following sections address the policy components and major decision points of a minimum wage policy.

B. TARGET WAGE SCHEDULE

First, the policy will need to determine a wage schedule showing the target rate and the time frame in which that rate would be achieved. The combination of these two factors can generate a nearly infinite number of implementation schedules. Table 1 provides several examples, including the following rate schedules:

- known schedule for State annual adjustments (column 1);
- SB 3 (Leno) which would increase the State minimum wage to \$13.00 (column 2);
- Mayor Garcetti proposal (column 3);
- Motion (Bonin-Buscaino-Martinez-Price-Koretz-Krekorian) proposal (column 4);
- a methodology incorporating an initial increase of \$1.50 (50 cents above the approved State minimum wage increase effective January 1, 2016), with annual adjustments of 50 cents, 75 cents, or \$1 (columns 5, 6, 7 respectively);
- a steady increase of 50 cents, 75 cents, or \$1 after the State minimum wage increase effective January 1, 2016 (columns 8, 9, 10 respectively); and
- Initial three years at a steady increase rate; in fourth year, the steady rate is increased by an additional 25 cents to incorporate an inflation adjustment; followed by CPI (columns 11, 12, 13 respectively).

Many alternative adjustment schedules could be devised in consideration of the intent of the policy, such as the speed to implement a target rate, the intention to allow employers and the economy to absorb the increased rates, and the unadjusted value of the target rate relative to the present value of that rate.

Table 1

Sample Minimum Wage Rate Schedules

1	2	State		City		Bump plus Steady			Steady			Steady, Modified				
		Known	SB 3	3	Mayor	Council	4	5	6		8	9	10	11	12	13
									7	7						
2015	\$ 9.00	\$ 9.00	\$ 10.25	\$ 10.25	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
2016	\$ 10.00	\$ 11.00	\$ 11.75	\$ 11.75	\$ 10.50	\$ 10.50	\$ 10.50	\$ 10.50	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
2017	\$ 10.00	\$ 13.00	\$ 13.25	\$ 13.25	\$ 11.00	\$ 11.25	\$ 11.50	\$ 11.50	\$ 10.50	\$ 10.75	\$ 11.00	\$ 10.50	\$ 10.75	\$ 11.00	\$ 11.00	\$ 11.00
2018	\$ 10.00	\$ 13.26	\$ 13.52	\$ 14.25	\$ 11.50	\$ 12.00	\$ 12.50	\$ 12.50	\$ 11.00	\$ 11.50	\$ 12.00	\$ 11.00	\$ 11.50	\$ 12.00	\$ 12.00	\$ 12.00
2019	\$ 10.00	\$ 13.53	\$ 13.79	\$ 15.25	\$ 12.00	\$ 12.75	\$ 13.50	\$ 13.50	\$ 11.50	\$ 12.25	\$ 13.00	\$ 11.75	\$ 12.50	\$ 13.25	\$ 13.25	\$ 13.25
2020	\$ 10.00	\$ 13.80	\$ 14.06	\$ 15.56	\$ 12.50	\$ 13.50	\$ 14.50	\$ 14.50	\$ 12.00	\$ 13.00	\$ 14.00	\$ 12.50	\$ 13.50	\$ 14.25	\$ 14.25	\$ 14.25
2021	\$ 10.00	\$ 14.07	\$ 14.34	\$ 15.87	\$ 13.00	\$ 14.25	\$ 15.50	\$ 15.50	\$ 12.50	\$ 13.75	\$ 15.00	\$ 13.25	\$ 14.50	\$ 15.50	\$ 15.50	\$ 15.50
2022	\$ 10.00	\$ 14.35	\$ 14.63	\$ 16.18	\$ 13.50	\$ 15.00	\$ 15.81	\$ 15.81	\$ 13.00	\$ 14.50	\$ 15.30	\$ 14.00	\$ 15.50	\$ 15.81	\$ 15.81	\$ 15.81
2023	\$ 10.00	\$ 14.64	\$ 14.92	\$ 16.51	\$ 14.00	\$ 15.30	\$ 16.13	\$ 16.13	\$ 13.50	\$ 15.25	\$ 15.61	\$ 14.75	\$ 15.81	\$ 16.13	\$ 16.13	\$ 16.13
2024	\$ 10.00	\$ 14.93	\$ 15.22	\$ 16.84	\$ 14.50	\$ 15.61	\$ 16.45	\$ 16.45	\$ 14.00	\$ 15.56	\$ 15.92	\$ 15.50	\$ 16.13	\$ 16.45	\$ 16.45	\$ 16.45
2025	\$ 10.00	\$ 15.23	\$ 15.52	\$ 17.17	\$ 15.00	\$ 15.92	\$ 16.78	\$ 16.78	\$ 14.50	\$ 15.87	\$ 16.24	\$ 15.81	\$ 16.45	\$ 16.78	\$ 16.78	\$ 16.78

Legend to borders, shades, colors:

Min-Median estimated at approximately 60% based on IRLE study; data not available for other models.

Years where the minimum wage would increase automatically by a CPI adjustment, estimated at 2% annual, if CPI is provided.

Indicates five-year mark

Col 2-4 Rates set by proposed policy with CPI-W index adjustment

Col 5-13 Annual adjustment shifts from set increase to CPI index adjustment, once the rate equals or exceeds \$15

Column

- 1 Known State minimum wage rates.
- 2 Minimum wage proposed under SB 3 (Leno).
- 3 Mayor Garcetti minimum wage proposal.
- 4 Council proposal of \$13.25, with an additional increase to \$15.25.
- 5,6,7, Provides a .50 cent increase on top of the State \$1 increase in 2016, then a steady increase each year thereafter. The justification is that the State will already increase the rate by \$1 January 1, 2016 and an additional marginal increase would extend impact of policy.
- 8,9,10 Provides a steady increase each year. This gives the State one year to implement a bill such as SB 3 before the City policy is implemented.
- 11, 12, Initial three years at a steady increase rate. In fourth year, the steady rate is increased by an additional 25 cents to incorporate an inflation adjustment, followed by CPI.
- 13

Rate Schedule

The first decision would be to select a wage schedule. The following presents the two wage schedules that have been proposed. The Council can also designate a different rate schedule.

IRLE evaluated the proposals presented by the Mayor and Council and did not recommend any rate schedule. The IRLE report indicates that the \$15.25 rate “reaches higher up into the City’s wage distribution than has been attempted to date in the U.S.,” which could result in larger effects than predicted by previous research. The Beacon report suggests that if Council moves ahead with this policy, a slower rate of increase would reduce policy effects on businesses. Economic Roundtable endorsed the \$15.25 rate schedule. Public testimony was also received suggesting implementation of lower rate increases over a longer period of time.

Indexing (i.e., CPI adjustments) is addressed in Section C.

ACTION	
B.1 Adopt proposal of \$13.25 per hour by 2017. 2015 \$1.25 increase 2016 \$1.50 increase 2017 \$1.50 increase	
or Adopt proposal to reach \$13.25 per hour by 2017, then \$15.25 by 2019. 2015 \$1.25 increase 2016 \$1.50 increase 2017 \$1.50 increase 2018 \$1.00 increase 2019 \$1.00 increase	
or Adopt another wage schedule. See Table 1 for sample rate schedules.	2015 \$ _____ 2016 \$ _____ 2017 \$ _____ 2018 \$ _____ 2019 \$ _____ 2020 \$ _____ 2021 \$ _____

Required Elements

The ordinance should designate the effective date of the rate change, as well as the department, bureau, or office that will provide annual notice to employers of the wage rate for the coming year. Proper and timely notice of wage changes will be required so that employers will know the wages they will be required to pay and when they will need to provide those wages. A single City entity should be responsible for that information and ensure that relevant information is publicized widely.

The Bureau of Contract Administration is the Designated Administrative Agency identified in the hotel minimum wage ordinance. In addition, the Economic Development Committee recently proposed the creation of an Office of Labor Standards in the Bureau of Contract Administration to enforce wage theft.

ACTION

- | | | |
|-----|--|--|
| B.2 | Month and Day that wage adjustments would be effective | |
| -- | January 1 | |
| -- | April 1 | |
| -- | July 1 | |
| -- | October 1 | |

ACTION

- | | | |
|-----|---|--|
| B.3 | Adjustment notice posted number of months prior to effective date | |
| -- | 3 months | |
| -- | 4 months | |
| -- | 6 months | |

ACTION

- | | | |
|-----|--|--|
| B.4 | Department, Bureau, or Office that will determine and post wage rate notices | |
| -- | Office of Finance | |
| -- | Bureau of Contract Administration | |
| -- | Office of Labor Standards (if created) | |
| -- | City Clerk | |

C. INDEXING

Motion (Bonin-Buscaino-Martinez-Price-Koretz-Krekorian) proposes that, following an initial period where wage rates are increased at \$1 per year or more for the first several years, wages will then be increased annually based on an index. These proposals suggest that the annual CPI-W for Los Angeles-Riverside-Orange counties stand as the index for the annual rate of increase. The CPI-W for the Los Angeles area since 2000 is shown in Table 2.

Table 2 Los Angeles-Riverside-Orange Counties Consumer Price Index-Urban Wage Earners and Clerical Workers (CPI-W)			
2000	3.3	2008	3.9
2001	3.3	2009	-1.2
2002	2.8	2010	1.5
2003	3.0	2011	3.0
2004	3.5	2012	2.0
2005	4.4	2013	1.1
2006	4.2	2014	1.3
2007	3.3		
Source: U.S. Bureau of Labor Statistics			

IRLE reports that 15 of 30 state minimum wage laws and 14 of 19 local minimum wage laws include indexing. In states that do not use indexing, minimum wage increases are irregular and much larger than inflation rates. IRLE reported on one study that shows no difference on the economy in states that index their minimum wages compared to states that do not.

Economic Roundtable recommends indexing wages based on changes in the CPI-W. Beacon recommends that no automatic index be incorporated into the policy. Rather, they recommend that additional increases be approved based on evaluation of the policy's impacts.

ACTION	
C.1	Implement an automatic annual index adjustment once the target salary rate has been achieved?
--	Yes, implement an automatic annual index adjustment
--	No, do not implement an automatic annual index adjustment

Index Adjustment Timing

Discussions have included the concept of an alternative rate schedule for specified firm types, including small businesses and non-profits. An argument for the alternative rate schedule is that certain business types require additional time to adjust to the higher wage rates. By providing a longer period of time to reach the higher wage rates, the designated businesses might be better able to accommodate those rates. These businesses are discussed later in this report.

Implementation timing of an automatic annual index adjustment, however, creates a moving target for the alignment of the primary wage schedule and the alternative rate schedule. Implementation of an automatic adjustment would require that the alternative wage schedule include higher annual adjustments for several years and create a longer time-frame for the alignment of the two rate schedules.

Consideration of the timing for implementation of the automatic annual index adjustment, then, becomes critical to the development of this policy.

- Should the two rate schedule match at some future point?
- If they should match, how is that match achieved:
 - Should the alternative wage schedule continue to climb at larger increments in later years until the two rates match, or
 - Should the automatic annual index adjustment become effective only when the two rate schedules have matched?

ACTION	
C.2	Should implementation of the automatic annual index adjustment be delayed until the alternative rate schedules match the primary rate schedule? -- Delay indexing until the alternative rate schedules match the primary rate schedule -- No, do not delay indexing until the alternative rate schedules match the primary rate schedule.

Floor

Motions and questions by the Committee requested consideration of a “floor” on the amount of a minimum wage change if the wage is indexed. As Table 2 shows, the Los Angeles region has experienced a negative value in the CPI-W. A strict index on the minimum wage rate would require that the rate be reduced in that situation. If a floor is established, then the minimum wage rate would not drop below the designated threshold.

Economic Roundtable recommends adopting a floor of 0%. IRLE discusses the concept of a floor but does not make a recommendation. Beacon does not address the concept of a floor.

ACTION		
C.3	Floor on automatic adjustments? -- Yes, establish a floor on automatic adjustments -- No, do not establish a floor on automatic adjustments	
ACTION		
C.4	If a floor is established, what is the amount of the floor? -- -1% -- 0% -- 1%	

Ceiling

It should be noted that the ceiling rate should be set with some care. If the ceiling rate is too high, automatic adjustments could go into effect in years when the economy is in recession. A lower ceiling ensures that automatic adjustments maintain some measure of moderation. On the other hand, a ceiling that is too low could be a problem when combined with a bank (discussed in the next section). Un-used adjustment could significantly accumulate in the bank and result in an obligation to increase wages during a recession.

Economic Roundtable recommends a ceiling of 4%. IRLE discusses the concept of a ceiling but does not make a recommendation. Beacon does not address the concept of a ceiling.

ACTION		
C.5	Ceiling on automatic adjustments? -- Yes, establish a ceiling on automatic adjustments -- No, do not establish a ceiling on automatic adjustments	

ACTION

- | | | |
|-----|---|--|
| C.6 | If a ceiling is established, what is the amount of the ceiling? | |
| -- | 2% | |
| -- | 3% | |
| -- | 4% | |

Bank

IRLE introduced the concept of a “bank,” to capture any CPI-W adjustments below the floor and above the ceiling for use at a later time. This could be used over time to moderate any large increases or decreases in CPI-W. Beacon and Economic Roundtable do not discuss the concept of a bank.

ACTION

- | | | |
|-----|--|--|
| C.7 | “Bank” any CPI changes below or above the floor or ceiling? | |
| -- | Yes, Bank any CPI changes below the Floor or above the Ceiling | |
| -- | No, do not bank any CPI changes below the Floor or above the Ceiling | |

Required Elements

Any notices relative to the index adjustment, adjustments relative to a floor or a ceiling, and determinations relative to banked adjustments should be managed by the same department, bureau, or office that is responsible for implementation of the minimum wage schedule.

ACTION

- | | | |
|-----|--|--|
| C.8 | Assign duties relative to the index adjustment, adjustment floor, adjustment ceiling, and adjustment bank to the same department, bureau, or office that is responsible for implementation and notice of the minimum wage rate schedule? | |
|-----|--|--|

D. ALTERNATIVE RATE SCHEDULE: SMALL BUSINESS

Motion (O'Farrell-Blumenfield-Krekorian-Martinez-Fuentes) requested consideration of impacts on small businesses. IRLE reported that several cities have adopted a slower phase-in for small businesses. There does not appear to be, however, a general consensus on the definition of a small business. Beacon recommends either an exemption for small businesses or a slower phase in rate for small businesses. Economic Roundtable identifies several approaches to accommodate small businesses, but makes no recommendation.

The following actions are presented in three parts:

- Will small businesses be eligible for an alternative minimum wage rate schedule or not? If no alternative minimum wage schedule is approved under D.1, then small businesses would comply with the primary minimum wage rate schedule and the remaining decision points are unnecessary. If an alternative wage schedule is offered, then parts D.2 and D.3 would need to be addressed.
- Should the alternative rate schedule for small businesses remain independent from the primary rate schedule, or should the two schedules meet at some future point? If the answer is yes, then employees of small businesses would always earn less than employees in other businesses. If the answer is no, then the alternative rate schedule should be designed with the intent that it will match the primary rate schedule at a designated point in time.
- Finally, what is the rate schedule? Again, this can be constructed in many different ways, with different models identified in Table 1. One option is that the State minimum wage would apply, in which case the alternative rate schedule would not match the primary rate schedule. Another issue is whether the alternative rate schedule would be used for other business types.

ACTION	
D.1	Adopt an alternative rate schedule that provides slower implementation of rate increases than the base rate for small businesses?
--	Yes, adopt an alternative rate schedule
--	No, do not adopt an alternative rate schedule

If Council approves an alternative rate schedule for small businesses, what are the parameters for that alternate rate schedule? Beacon recommends that small businesses should be exempted entirely from the minimum wage policy, effectively defaulting to the State minimum wage.

ACTION	
D.2	Should the two schedules align at some future date, or should they remain different?
--	Yes, the two schedules should align in the future
--	No, the two schedules should not align

ACTION	
D.3	What alternative rate schedule applies? Is this the same rate schedule as applied to other groups (i.e., non-profits) eligible for an alternate rate?
or	Is this a default to the State minimum wage?
	2015 \$ _____
	2016 \$ _____
	2017 \$ _____
	2018 \$ _____
	2019 \$ _____
	2020 \$ _____
	2021 \$ _____

Small Business Definition

Any criteria to provide an alternate rate to small businesses would require a definition of the types of businesses that would be eligible. Several options are available to identify the eligibility threshold:

- The number of people employed by the business;
- The City's business tax program includes a small business exemption for businesses that generate less than \$100,000 in total worldwide gross receipts;
- The O'Farrell-Blumenfield-Fuentes letter suggests that wage disparity between the top executive and the lowest paid worker is another means to determine eligibility;
- The Peer review indicates that new businesses typically start small, then add new jobs rapidly.

IRLE could not identify a consistent definition of small businesses. Beacon recommends that small businesses be defined as those that employ fewer than 500 employees. Economic Roundtable identifies several cities with small business exemptions, but, as noted earlier, does not recommend an exemption or alternate rate for small businesses.

Several issues should be considered when setting a standard based on the number of employees in a business. A lower number threshold could create an incentive for a company to subcontract out all of its work to smaller firms in order to remain under the small business definition.

In addition, if the threshold for a small business is too low, it could create a disincentive to business growth and employment by suppressing hiring. If the employer subsequently increases its number of employees above the threshold, that would then trigger an increase in payroll costs. The wider the gap between the standard minimum wage and the alternate minimum wage, the greater the impact of a triggered increase for those businesses.

IRLE warns that wholesale exemptions for small businesses may create incentives for business behavior that could be of concern, and they do not recommend such exemptions.

As mentioned above, the City's business tax program offers an exemption for small businesses that report gross worldwide sales (taxable and non-taxable) below \$100,000. Such a definition may be a reasonable method to align the City's various program elements.

The City's living wage law allows non-profits to be exempt from the law if their top executive earns less than 8 times the wage of the lowest paid worker. The O'Farrell-Fuentes-Blumenfield letter suggested that a similar methodology be used for small businesses, but in situations where the top executive earns less than 10 times the wage of the lowest paid worker.

ACTION

D.4 Define the size of a small business eligible for an alternate rate:

- Fewer than x employees
 - 3 employees
 - 5 employees
 - 10 employees
 - 25 employees
 - 50 employees
 - 100 employees
 - 250 employees
- World-wide gross receipts less than \$x:
 - \$100k
 - \$200k
- Determined by wage disparity, i.e., top executive earns less than 8 times or 10 times the wage of the lowest paid worker.

Finally, the policy should consider whether the alternate rate applies to individual establishments or to firms. If eligibility for the alternate rate is based on the number of employees in an establishment, the policy may exempt large national or multinational firms with multiple locations in the City. IRLE recommends that the policy be based on firms, not establishments.

ACTION

D.5 If the policy is based on the total number employees, is this within:

- each establishment
- each business, including all locations or establishments within that business group

E. ALTERNATIVE RATE SCHEDULE: NEW BUSINESS

The Peer Review identified that it may be appropriate to provide special consideration to new businesses. The report notes recent Census data show that new firms start small and grow quickly and are an engine for job growth.

The City provides an exemption from paying the three years of the business tax for new businesses and existing businesses that relocate to the City. The business tax exemption is not provided to an existing firm that opens a new location.

If the City provides an alternate rate schedule for small businesses, non-profits, or some other business types, it may provide an opportunity to designate that new businesses would be permitted to pay the alternate wage rate in effect in the year that they were formed.

ACTION	
E.1	Provide that new businesses would pay the alternate wage rate in effect in the year that they are formed?
--	Yes
--	No

F. ALTERNATE RATE SCHEDULE: NON-PROFITS

Motion (O'Farrell-Blumenfield-Krekorian-Martinez-Fuentes) requested consideration of impacts on non-profits. The IRLE reported that non-profits include a wide range of organizational types. Some have sizable annual budgets with varied funding streams, while others face budget constraints such as fixed public funding streams.

IRLE identified several local minimum wage laws that provided a slower phase-in of a higher wage for non-profits, and suggested that such a solution may be appropriate. Beacon recommends either an exemption for non-profits or a slower phase in rate for non-profits. Economic Roundtable recommends that no exemptions be provided.

The following actions are presented in three parts:

- Will non-profits be eligible for an alternative minimum wage rate schedule or not? If no alternative minimum wage schedule is approved under F.1, then non-profits would comply with the primary minimum wage rate schedule and the remaining decision points are unnecessary. If an alternative wage schedule is offered, then parts F.2 and F.3 would need to be addressed.
- Should the alternative rate schedule for non-profits remain independent from the primary rate schedule, or should the two schedules meet at some future point? If the answer is yes, then employees of non-profits would always earn less than employees in other businesses. If the answer is no, then the alternative rate schedule should be designed with the intent that it will match the primary rate schedule at a designated point in time.
- Finally, what is the rate schedule? Again, this can be constructed in many different ways, with different models identified in Table 1. One option is that the State minimum wage would apply, in which case the alternative rate schedule would not match the primary rate schedule. Another issue is whether the alternative rate schedule would be used for other business types.

ACTION	
F.1	Adopt an alternate rate schedule that provides a slower implementation of rate increases than the base rate for non-profits?
--	Yes, adopt an alternative rate schedule
--	No, do not adopt an alternative rate schedule

If Council approves an alternate rate schedule for non-profits, what are the parameters for that alternate rate schedule? Beacon recommends that non-profits should be exempted entirely from the minimum wage policy, effectively defaulting to the State minimum wage, but alternately suggests a slower phase-in.

ACTION	
F.2	Should the two schedules align at some future date, or should they remain different?
--	Yes, the two schedules should align in the future
--	No, the two schedules should not align

ACTION	
F.3	What alternative rate schedule applies? Is this the same rate schedule as applied to other groups (i.e., small businesses) eligible for an alternate rate?
or	Is this a default to the State minimum wage?
	2015 \$ _____
	2016 \$ _____
	2017 \$ _____
	2018 \$ _____
	2019 \$ _____
	2020 \$ _____
	2021 \$ _____

Non-profits Eligible for an Alternate Rate

Similar to the discussion on small businesses, Council would need to designate the types of non-profits that would be eligible for an alternate rate from the primary minimum wage rate schedule.

Size could be a factor, as with small businesses. If an alternate rate for small businesses is included based on the size of the business, non-profits of the same size could be included in that category. Three other measures have been proposed on the public record for consideration:

- Size of the non-profit's budget;
- Wage disparity between the top executive and the lowest paid worker; and
- Non-profits that offer transitional jobs.

Public testimony was received concerning non-profits that provide transitional jobs. These organizations provide a combination of real-world work experience and social services to help certain groups, such as youth or the homeless, transition into the workforce. Concern was expressed that fewer clients could be served by these programs if higher wages are required. The alternate rate would not apply to all employees in a non-profit that provides transitional jobs, but only to the transitional jobs themselves. If an alternate rate were provided, a specific definition of such non-profits and the nature of transitional jobs would be required.

In addition, the IRLE report indicated that certain non-profit organizations that are funded principally from State and federal reimbursements may have difficulty continuing to operate. The State and federal reimbursement rates do not factor in labor costs associated with local minimum wage laws. As a result, the non-profits in this category would be required to find other funds to cover their labor costs. The City is currently seeking legislation or administrative actions that would correct this situation, but in the interim it may be appropriate to include these organizations within a non-profit alternative rate.

The City's living wage law allows non-profits to be exempt from the law if their top executive earns less than 8 times the wage of the lowest paid worker. The O'Farrell-Fuentes-Blumenfield letter suggested that a similar methodology be used for non-profits in this policy, but in situations where the top executive earns less than 10 times the wage of the lowest paid worker.

ACTION	
F.4	Define the non-profits eligible for an alternate rate:
•	Fewer than x employees: 5 employees 50 employees 10 employees 100 employees 25 employees 250 employees
•	Budget below a certain threshold
•	Wage disparity, i.e., top executive earns less than 8 or 10 times the wage of the lowest paid worker. Similar formula used in the Living Wage Ordinance
•	Organizations primarily funded by State or Federal reimbursements that are not adjusted to account for local minimum wage rates
•	Employees in transitional jobs programs

If non-profits that are funded primarily by State or Federal reimbursements are offered an alternative rate schedule, how would eligibility be determined?

ACTION	
F.5	Eligibility for non-profits primarily funded by State or Federal reimbursements are defined as a percentage of payroll from State and Federal reimbursements: -- 50% -- 75% -- 100%

If non-profits that provide transitional jobs are offered an alternative rate schedule, how would eligibility be determined? Several factors may be included in the definition of non-profit organizations that would be eligible, as noted in Section F.6.

ACTION	
F.6	Eligibility for non-profits that provide transitional jobs is defined as :
--	Program services are provided for a limited time solely in the context of creating a transition to permanent employment: 3 months 4 months 6 months 1 years 2 years
--	Program offers clients additional services, including education and training, legal services, counseling, and similar life-training support services and resources, equivalent to the value of the wage earned
--	Program designates specific needs populations to whom its services are provided based factors such as economic need
--	Program revenues are provided primarily by public funding streams such as State and Federal reimbursements
--	The alternative wage schedule would not apply to employees working in management, retail operations, contract services, or other non-client positions

G. ALTERNATE RATE SCHEDULE: TIPPED EMPLOYEES

The IRLE, Beacon and Economic Roundtable reports indicate that restaurants are one industry sector where a higher minimum wage could have significant impacts. Testimony was presented at the public hearings by restaurant owners who voiced concerns about the impacts on their businesses, complemented by testimony from tipped workers who advocated that tipped employees should be included under the minimum wage program.

The California Restaurant Association and other restaurant interests have submitted documents and legal comments requesting that the City incorporate a "Total Compensation" solution to address concerns with restaurant tipped employees. In addition, extensive testimony was submitted requesting that the City use a "total compensation" approach toward calculating the effective wage of employees who earn tips as recommended by the Beacon report. But testimony on this subject also indicated that a total compensation approach was not valid under California law. Upon consideration of this matter, the City Attorney has advised that the City would not be able to include total compensation as a factor in calculating wages earned in its minimum wage program.

As an alternate solution, specified businesses where employees receive tips (restaurants, nail and hair salons, car washes) could be placed on an alternate rate schedule. Economic Roundtable recommends that no alternate rate schedule be approved for tipped employees.

ACTION	
G.1	Adopt an alternate rate schedule that provides slower implementation of rate increases than the base rate? -- Adopt an alternate rate schedule -- Do not adopt an alternate rate schedule

If Council approves an alternate implementation schedule for businesses with tipped employees, what are the parameters for that alternate rate schedule?

ACTION	
G.2	Should the two schedules align at some future date, or should they remain different? -- Yes, the two schedules should align in the future -- No, the two schedules should not align

ACTION			
G.3	What alternative rate schedule applies? Is this the same rate schedule as applied to other groups (i.e., small businesses) eligible for an alternate rate?	2015	\$ _____
		2016	\$ _____
or	Is this a default to the State minimum wage?	2017	\$ _____
		2018	\$ _____
		2019	\$ _____
		2020	\$ _____
		2021	\$ _____

The total compensation issue is controlled by State law. The City's law could reference State law on this subject matter. If State law changes in the future, the City's minimum wage law would be positioned to reflect that change.

ACTION		
G.4	Refer to State law on this issue of total compensation?	
--	Yes	
--	No	

ACTION		
G.5	Monitor State legislation concerning tipped wages and total compensation?	
--	Yes	
--	No	

H. ALTERNATE RATE SCHEDULE: YOUTH WAGE/TRAINING WAGE

IRLE reports that local minimum wage laws typically incorporate State labor laws concerning teens and training wages. California allows youth “learners,” 14 to 17 years old, to be paid 85% of the minimum wage for their first 160 hours of employment in an occupation. IRLE reports, though, that very few employers use this provision. IRLE indicates that teens make up 3% of the workforce that would be affected by a City minimum wage law. Beacon estimates that teens make up a smaller portion of the workforce as well, and that the minimum wage would result in a decrease in teen employment.

Several cities offer exemptions for youth employees and training wages. Within California, Economic Roundtable reports that:

- Berkeley exempts persons under 25 years in job training programs that are operated by non-profits and government agencies;
- Richmond exempts persons employed through the city’s YouthWORKS Youth Summer Employment program; and
- San Diego exempts youth working on a publicly subsidized short-term youth employment program, student employees, and camp counselors or program coordinators of camps as defined.

Other cities in California offer no exemptions for youth or for training programs.

ACTION	
H.1	Incorporate youth and apprentices references in State law?
--	Incorporate reference to State law that allows for a lower hourly rate for specified youth for a limited period
--	Do not incorporate reference to State law that allows for a lower hourly rate for specified youth for a limited period

As noted, some cities offer an alternative rate for youth in training jobs beyond those referenced in State law. Beacon recommends exemption of youth, as well as for training periods. Economic Roundtable recommends that no exemptions be included in the City's law.

ACTION	
H.2	Consideration for youth or training employees
--	Alternate rate for persons up to a designated age:
	18
	19
	20
	21
	25
--	Alternate rate for persons under 25 working in job training programs operated by non-profits and government agencies;

If an alternate rate is selected for specified youth and training programs, the Council would need to determine whether that alternate rate is a permanent exemption or an alternate rate which aligns with the primary rate at a later date.

ACTION	
H.3	Alternate rate consideration:
--	Designated youth and training programs would be exempt from the City law, required to comply with State minimum wage;
--	Designated youth and training programs would comply with an alternate rate schedule.
•	If an alternate rate schedule is selected, would it be:
--	The same rate schedule as applied to other groups (i.e., small businesses, non-profits) eligible for an alternate rate?
--	A different rate schedule?

I. EXEMPTIONS: HARDSHIP

The Hotel Minimum Wage program includes a hardship provision that allows hotel operators to obtain a temporary waiver from compliance with the ordinance. The process requires an application for exemption and review by the Controller, including an audit if necessary, to confirm that the business is in distress. If approved, the hotel operator receives a one-year waiver from the obligations of the ordinance. This may only be provided once.

This hardship provision may be relevant to the Citywide minimum wage policy as well.

ACTION	
I.1	Should the policy include a hardship provision similar to that provided in the Hotel Minimum Wage ordinance?
--	Yes
--	No

ACTION	
I.2	Assign duties relative to a hardship exemption to the same department, bureau, or office that is responsible for implementation and notice of the minimum wage rate schedule?

J. COMPENSATED AND UNCOMPENSATED TIME OFF

The Hotel Minimum Wage program includes compensated time off. In that ordinance, full time employees receive 96 hours of compensated time off (sick, vacation, or personal necessity time) and an additional 80 hours of uncompensated time off for sick leave for personal or family illness. Part-time employees receive an incremental accrual of both compensated and uncompensated time off. Testimony was received at the public hearings requesting that similar provisions be included in the Citywide minimum wage program.

ACTION	
J.1	Should the policy include compensated time off and uncompensated time off similar to that provided in the Hotel Minimum Wage ordinance?
--	Yes
--	No

K. EVALUATION OF EFFECTS

The IRLE, Beacon, and Economic Roundtable reports included a recommendation that the City evaluation implementation impacts of the minimum wage policy. The Peer Review also recommends evaluation of program impacts. Such an effort would monitor the local economy to determine whether there are any significant changes in employment, wages, business closures, and other relevant factors. Findings from evaluation efforts would be available to the Council and Mayor.

ACTION	
K.1	Conduct an Evaluation?
--	Yes, conduct an evaluation
--	No, do not conduct an evaluation

If an evaluation is to be conducted, several requirements should be included in the structure of that process.

ACTION	
K.2	When would the evaluation be conducted?
•	One time, within an identified number of years:
--	3 years from initiation
--	5 years from initiation
•	Regularly:
--	Every year
--	Every three years
--	Every five years

ACTION	
K.3	How will the evaluation be managed?
--	Appoint a Commission to evaluate
--	Appoint a panel of economists to evaluate
--	CLA and CAO at direction of Council and Mayor
--	Department assigned to implement the minimum wage law

Data Necessary for Effective Evaluation

The IRLE identified two measures that are useful in determining the reach of a minimum wage rate, and described mechanisms in other cities that evaluate impacts of minimum wage that could result in the slowing or halting of scheduled increases.

Economic Roundtable provided a “Data Dashboard” that they recommend as a tool to monitor the local economy and watch for impacts from this policy. Letters from Councilmembers O’Farrell, Fuentes, and Blumenfield submitted to the public record have identified other methodologies. Additional research and analysis is required to determine how best to address the City’s program and the data that should be collected to support analysis.

The Peer Review authors note that significant data elements are currently missing. They suggest that an effective evaluation would benefit from data on the hourly wages and number of hours worked of individual employees at each firm, but that surveys may be needed to acquire this data.

Several thoughtful proposals have been made on this subject, as noted, but they suggest different approaches and data sets. Additional detail and discussions are needed to ensure that a robust and informative data set is identified to support the evaluations necessary to inform the Council and Mayor concerning the effects of the policy.

ACTION	
K.4	Instruct the CLA, CAO, and the designated department to work with economists to identify appropriate methodologies and data needed to conduct an evaluation and report to Council with recommendations to obtain the necessary data in support of the program evaluation. -- Yes -- No

Triggers

The implications of the evaluation should be carefully considered. Comments have been submitted to the record suggesting that wage increases be halted if certain effects or milestones are identified in the evaluation process. Beacon, for example, recommends including evaluation and triggers as a means to control wage increases if the local economy does not meet certain benchmarks for growth.

The O'Farrell-Blumenfield-Fuentes letter recommends the inclusion of triggers to slow or stop automatic wage rate increases. The letter suggests that triggers would provide a "backstop" should the policy result in the outcomes identified in the Beacon report.

As noted, Economic Roundtable prepared a Data Dashboard to monitor impacts of the policy. But they do not recommend triggers that would automatically go into effect if certain results emerge from the Dashboard. They have expressed concern that one-time events may cause a short-term effect in the economy, independent of the minimum wage law, and that wages should not be altered due to that one-time event. They propose that regular reporting of Dashboard findings would provide decision-makers with data on a periodic basis that would allow for consideration of actions to respond to the performance of the economy.

ACTION	
K.5	Should the Citywide minimum wage law include triggers to either slow or pause rate increases? • Yes? • No?

ACTION	
K.6	If yes, instruct the same department, bureau, or office that is responsible for implementation and notice of the minimum wage rate schedule to report back with the methodologies for triggers?

L. ENFORCEMENT

At its meeting of April 28, 2015, the Economic Development Committee considered a report from the Chief Legislative Analyst regarding the feasibility of establishing an Office of Labor Standards (OLS) pursuant to Motion (Cedillo-Koretz-Bonin). The report analyzed options for the establishment of the proposed Office, options for enforcement authorities and estimates the cost of the proposed new Office.

Upon consideration of the report, the Committee adopted the following recommendations and the matter was referred to the Budget and Finance Committee.

1. REQUEST the City Attorney to draft an ordinance that would create a Division of Labor Standards within the Public Works Bureau of Contract Administration (BCA) that would include the following enforcement mechanisms modeled on the San Francisco Labor Standards Division, and consistent with all other City wage policies, to include:
 - a. Administrative fines per employee per each day wage is not paid; to be paid to the victim of wage theft in addition to a separate fee to be paid to the City to compensate the City for the cost of investigation and remedying a violation.
 - b. Administrative penalties including late payment penalties.
 - c. Administrative Appeal process.
 - d. Liens against the business property for amounts due to the employee and/or the City.
 - e. Private Rights of Action.
 - f. Revocations of City permits.
 - g. Protections against retaliation.
2. REQUEST the City Attorney to review the fee structure and help define how the City can reach full cost recovery.
3. INSTRUCT the CAO to begin with five (5) positions, but note that if San Francisco has 25 positions and the City of Los Angeles is 4 times larger, then arguably the City should be at 100 employees for enforcement based on those metrics; but start with 5 resolution authorities to initiate this responsibly.
4. INSTRUCT the BCA to report back in 30 days with an implementation plan for the new Labor Standards Division including resources necessary to implement the program, along with plans for the development of partnerships with local public interest groups and/or legal entities, bar associations, law schools, etc. and report to also include basic public outreach plans as a component of this program.

M. OTHER

In addition to the primary policy issues discussed above, several additional details should be included in the policy if approved.

Program Scope

Previous decision points in this report identified the need for a single designated City department, bureau, or office to implement the minimum wage program. Should program implementation be limited only to the determination and posting of required notices related to wage increases? Or should other tasks be assigned to this office?

ACTION	
M.1	Should the designated department, bureau, or office be assigned to manage other specified tasks, reports, studies, or actions that have not been previously assigned? Options include: -- Outreach and education -- Coordination with public interest groups -- Coordinate studies, data collection, etc

Application for Alternative Wage Schedule

Registration to use the alternative wage schedule or exemptions in the minimum wage law may be necessary to ensure compliance with the law and to provide clarity with the requirements of the law. An application process would have significant administrative costs, but would ensure that employers clearly understand the wages they would be obligated to pay.

ACTION	
M.2	Should any business that would like to follow the alternative wage rate schedule apply for that option? -- Yes -- No

Employer Assistance

The IRLE report indicates that additional services may be needed to assist small businesses with implementation of the program and transition to a higher minimum wage. IRLE identified assistance with access to small business loans and technical assistance and training programs as the types of efforts that could provide additional support to small businesses.

The IRLE report also indicates that additional efforts may be required to assist non-profits affected by the program, such as working with State and federal agencies to address reimbursement policies. Additional assistance may be helpful to help non-profits transition as well.

The Peer Review also recommends that the City evaluate whether assistance programs would be available and helpful in the transition to higher wages required under the minimum wage program.

ACTION	
M.3	Should the designated department, bureau, or office be assigned to identify opportunities to assist small businesses and non-profits with the implementation of the City's minimum wage program? -- Yes -- No

Hotel Minimum Wage

In 2014, the City Council approved an ordinance that would require hotels with 300 or more rooms to pay a wage of \$15.37 per hour; hotels with 150 rooms or more would be required to pay the Hotel minimum wage in effect on July 1, 2016. Beginning in 2017, the wage is indexed to the CPI. Table 3 shows an estimated rate schedule under the hotel minimum wage ordinance, with an estimated 2% CPI adjustment each year.

Table 3
Hotel Minimum Wage
Rate Schedule

Year	Min Wage
2015	\$ 15.37
2016	\$ 15.68
2017	\$ 15.99
2018	\$ 16.31
2019	\$ 16.64
2020	\$ 16.97
2021	\$ 17.31
2022	\$ 17.66
2023	\$ 18.01
2024	\$ 18.37
2025	\$ 18.74

Testimony was submitted requesting that the hotel minimum wage law be eliminated in favor of a Citywide minimum wage. Since the hotel minimum wage is higher at an earlier date than the Citywide minimum wage and the hotel minimum wage is indexed, there is no point in time when the two wage rates will meet. Additional action would be required to match the hotel minimum wage rate to the Citywide minimum wage rate.

ACTION	
M.4	Should the hotel minimum wage align with the Citywide minimum wage?
--	Yes
--	No

If Council determines that the rate schedules should match, there are several ways to do this:

- Repeal the hotel minimum wage in favor of the Citywide minimum wage rate.
- Pause any automatic annual CPI adjustment until the rate schedules match. This approach is dependent upon a primary rate schedule that will increase to an amount roughly equal to the hotel minimum wage at some point, either as a result of a designated wage schedule or inclusion of annual automatic adjustments.
- Determine the date at which the two schedules would match, then adjust the primary rate schedule to match the hotel minimum wage scale. This could result in a significant wage increase in the final year of the Citywide minimum wage rate schedule.

ACTION	
M.5	If the hotel minimum wage is to align, how should that be achieved?
--	Repeal the hotel minimum wage
or	-- Hold any automatic annual index adjustment to the hotel minimum wage rate until it matches the Citywide minimum wage
or	-- Establish a date certain when they will match, with the primary minimum wage rate matching the hotel minimum wage rate.

Collective Bargaining Agreements

Many cities include an exemption from their City minimum wage for employers that have entered into a Collective Bargaining Agreement with a clear and unambiguous waiver. Exemptions are provided under this condition as workers covered by a Collective Bargaining Agreement have a stronger negotiating position and may have rationally accepted a lower wage in exchange for other benefits. The City's hotel minimum wage law includes such an exemption.

ACTION	
M.6	Should the Citywide minimum wage include an exemption for employers with a Collective Bargaining Agreement with a clear and unambiguous waiver?
--	Yes
--	No