

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: April 8, 2016

TO: Honorable Members of the City Council

FROM: Sharon M. Tso *JM*
Chief Legislative Analyst

STATE MINIMUM WAGE UPDATE

SUMMARY

On March 22, 2016, the Economic Development Committee considered a report from the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) concerning policy matters related to the Citywide Minimum Wage ordinance.

On March 28, 2016, Governor Jerry Brown announced a plan to increase the State minimum wage through the legislative process to \$15 an hour by 2022 for businesses with 26 or more employees and \$15 an hour by 2023 for all businesses. The proposal was considered and approved by the Assembly and Senate on March 31, 2016, and signed into law by the Governor on April 4, 2016.

Increases to the State's minimum wage law will occur incrementally over time. The Governor will be able to temporarily suspend a scheduled wage increase if certain conditions are met with regard to a decrease in employment or retail sales, or circumstances related to a deficit in the State budget. The law also ensures that the minimum wage and paid sick leave laws apply to providers of in-home supportive services.

RECOMMENDATION

That the Council note and file this report.

BACKGROUND

On March 28, 2016, Governor Jerry Brown announced a plan to increase the State minimum wage through the legislative process, rather than rely on the initiative process to address this policy matter. As noted in our previous report (CF# 14-1371), two initiatives have been proposed related to raising the State minimum wage, one of which has received enough signatures to qualify for the November General Election and another that was anticipated to qualify.

The Governor's minimum wage proposal would result in a legislative solution to increase the State minimum wage from \$10 currently to \$15 for businesses with 26 or more employees by January 1, 2022 and for all businesses by January 1, 2023. This matter was addressed in Senate Bill (SB) 3 (Leno) and signed by the Governor on April 4, 2016.



The Statewide wage implementation schedule in SB 3 would go into effect beginning January 1, 2017 and is shown in Table 1. The first wage increase under the adopted Citywide Minimum Wage will go into effect on July 1, 2016 and is also shown in Table 1. It should be noted that the City minimum wage will remain higher than the State minimum wage at least through 2023, though differences in the State law could cause the State minimum wage to increase above the City minimum wage after 2023, as indicated below. At any given time, the higher wage will prevail.

Both the City and State laws provide a delayed implementation schedule for businesses with 25 or fewer employees. SB 3, however, provides that if the Consumer Price Index for Urban Wage Earners and Clerical Workers in the United States CPI-W is above 7 percent in the year when large businesses reach \$15 an hour, businesses with 25 or fewer employees will also pay \$15 an hour.

In addition, SB 3 applies all elements of the State paid sick leave law to providers of in-home supportive services, though the full amount of leave provided is implemented over time. Employees of an in-home service provider would receive one day of paid sick leave beginning in 2018; two days of paid sick leave when the State minimum wage reaches \$13 an hour; and three days of paid sick leave when the State minimum wage reaches \$15 an hour.

Table 1
Adopted Citywide Minimum Wage Compared to State Minimum Wage in SB 3

Effective Date	City Hourly Rate*		Effective Date	SB 3 Hourly Rate	
	26 or More Employees	25 or Fewer Employees		26 or More Employees	25 or Fewer Employees
July 1, 2016	\$10.50	\$10.00	Jan 1, 2016	\$10.00	\$10.00
July 1, 2017	\$12.00	\$10.50	Jan 1, 2017	\$10.50	\$10.00
July 1, 2018	\$13.25	\$12.00	Jan 1, 2018	\$11.00	\$10.50
July 1, 2019	\$14.25	\$13.25	Jan 1, 2019	\$12.00	\$11.00
July 1, 2020	\$15.00	\$14.25	Jan 1, 2020	\$13.00	\$12.00
July 1, 2021	\$15.00	\$15.00	Jan 1, 2021	\$14.00	\$13.00
July 1, 2022**	\$15.38	\$15.38	Jan 1, 2022	\$15.00	\$14.00
July 1, 2023**	\$15.76	\$15.76	Jan 1, 2023	\$15.00	\$15.00

* The following permanent or temporary exemptions apply for several types of employees under City law:

- Non-profits with transitional employees
- “Learners” under State law
- Governmental payrolls (except the City)

** Beginning July 1, 2022, City minimum wages automatically increase by CPI-W for the Los Angeles metropolitan statistical area. City minimum wages for 2022 and 2023 are estimated with a CPI-W adjustment of 2.5%.

The City's hourly rate will increase automatically beginning July 1, 2022 based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the Los Angeles metropolitan area (Los Angeles-Riverside-Orange County, CA), which is published by the Bureau of Labor Statistics. The SB 3 minimum wage includes an automatic adjustment factor that takes effect on January 1, 2024, based on the Consumer Price Index for Urban Wage Earners and Clerical Workers in the United States CPI-W. Because the two CPI-Ws will be different over time, it is possible that the State minimum wage could exceed the City minimum wage at some point in the future.

SB 3 provides that the Governor may temporarily suspend any minimum wage increase if the State economy experiences a decrease in employment rates and retail sales. The Governor may also temporarily suspend any minimum wage increase if the State budget is in deficit. A suspension is initiated by a notice to the Legislature and Governor by the Director of Finance by July 28 of any year that certain employment or deficit factors exist. The Governor would confirm suspension no later than September 1 of that year. The Governor may temporarily suspend a minimum wage increase no more than two times.

Other than provisions related to providers of in-home supportive services, there are no amendments to the State's paid sick leave law, which is described further in our previous report.