


**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: June 9, 2017

TO: Honorable Members of the Economic Development Committee

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No: 15-0817
Assignment No: 17-05-0511

SUBJECT: Alignment of the City's Living Wage Policies with the Citywide Minimum Wage

SUMMARY

In 2016, during the last amendment of the Living Wage Ordinance (LWO), it came to the City's attention that by July 1, 2017, the City's minimum wage will surpass the wage rates in the City's LWO. Allowing the minimum wage rates to surpass the living wage rates creates confusion between employers and employees with regard to wages earned and complicates administration of the program by the Bureau of Contract Administration (BCA). To resolve issues surrounding wage discrepancies, on May 11, 2016, the Council adopted recommendations (C.F. 15-0817) instructing the Bureau of Contract Administration (BCA), with the assistance of the Chief Legislative Analyst (CLA) and City Attorney, to report on options to better align the City's living wage and minimum wage policies, and ensure that no workers are paid below the minimum wage.

This report recommends adjusting the living wage rates to align with the minimum wage rates, which would simplify and streamline City wage policies and ensure that wages earned for employees affected by the LWO are not otherwise reduced.

RECOMMENDATIONS

- 1) REQUEST the City Attorney to prepare and present an ordinance amending the Los Angeles Administrative Code (LAAC) relating to living wage requirements as follows:
 - a) Revise Section 10.37.2(a)(1) to increase the living wage rates and align the wage rates of the living wage to the City's minimum wage rate as follows:
 - i) On July 1, 2017, the hourly minimum wage shall be \$12.00
 - ii) On July 1, 2018, the hourly minimum wage shall be \$13.25
 - iii) On July 1, 2019, the hourly minimum wage shall be \$14.25
 - iv) On July 1, 2020, the hourly minimum wage shall be \$15.00
 - b) Revise Section 10.37.3 to reduce the \$1.25 per hour provision of health care benefits to \$1.13 per hour for employees and their dependents effective July 1, 2017, and sunset the \$1.13 per hour provision of health care benefits effective July 1, 2018.

FISCAL IMPACT STATEMENT

There is no General Fund impact.

BACKGROUND

In 1997, the City of Los Angeles became one of the first cities in the nation and the first in California to pass a LWO requiring certain City Contractors doing business with the City to pay employees a living wage. The establishment of the LWO was intended to improve the level of services to and for the City by requiring City contractors to provide employees a wage higher than the California Minimum Wage, including health benefits, and 12 compensated and 10 uncompensated days off.

As of July 1, 2016, the LWO requires certain City contractors doing business with the City to pay a wage of \$11.27 per hour with a health benefit subsidy of \$1.25 per hour, and no less than \$12.52 per hour without health benefits. LWO wage rates increase annually, but the health benefit is frozen at \$1.25. The anticipated LWO rates established by ordinance for the living wage with a health benefit are as follows:

- On July 1, 2017, the hourly living wage shall be \$11.48 (\$1.25)
- On July 1, 2018, the hourly living wage shall be \$11.82 (\$1.25)
- On July 1, 2019, the hourly living wage shall be \$12.18 (\$1.25)
- On July 1, 2020, the hourly living wage shall be \$12.54 (\$1.25)

In 2016, the City adopted a minimum wage ordinance (MWO) that requires employers within the geographic boundaries of the City of Los Angeles to pay employees a Citywide minimum wage as shown below.

- On July 1, 2017, the hourly minimum wage shall be \$12.00
- On July 1, 2018, the hourly minimum wage shall be \$13.25
- On July 1, 2019, the hourly minimum wage shall be \$14.25
- On July 1, 2020, the hourly minimum wage shall be \$15.00

As of July 1, 2016, the MWO requires employers within the boundaries of the City to pay a wage of \$10.50 per hour for employers with 26 or more employees. In addition, employees within the boundaries of the City are also entitled to 48 hours of paid sick leave in each year of employment, calendar year, or 12-month period.

Alignment of the City's Living Wage and Minimum Wage

With the establishment of the City's MWO, a discrepancy was created between the wage rates under the LWO and those in the MWO. Currently, the LWO starts at a different rate than the

MWO, increases at a different rate, and applies to employees that are not covered by the MWO. As a result, employers have become confused as to the wages owed to their employees. The LWO applies to contractors who do business with the City and applies to employees both inside and outside the geographic boundaries of the City. As a result of discrepancies between the LWO and MWO, employees within the geographic boundaries of the City will be paid a different wage relative to their peer employees who are outside the boundaries of the City. In 2018, the MWO wage rate will exceed the LWO wage rate with the health care benefit, as shown in Table 1.

Table 1: Comparison of the City’s Anticipated Living Wage vs. the City’s Designated Minimum Wage. Source: BCA

<u>Date</u>	<u>City’s Anticipated Living Wage (Health Benefit)</u>	<u>City’s Designated Minimum Wage</u>
July 1, 2016	\$11.27 (\$1.25)	\$10.50
July 1, 2017	\$11.48 (\$1.25)	\$12.00
July 1, 2018	\$11.82 (\$1.25)	\$13.25
July 1, 2019	\$12.18 (\$1.25)	\$14.25
July 1, 2020	\$12.54 (\$1.25)	\$15.00

If the City’s living wage rate were to increase as outlined in Table 1, employees of contractors and subcontractors outside of the City’s geographic boundaries would be subject to the hourly rate of \$11.48 with a health benefit of \$1.25, which is a lower hourly wage rate compared to their peer employees within the City who are paid an hourly rate of \$12.00. Although City contractors and subcontractors must comply with the policies of the LWO, the wage rates of the MWO take precedence over the LWO wage rates for employees that are working within the geographic boundaries of the City. This discrepancy becomes more apparent in 2018 when the living wage rate combined with the health benefit is lower than the minimum wage rate. These wage rate discrepancies also complicate enforcement activities by BCA, which will be required to track and investigate deviations in these wages.

To ensure that all employees of a City contract receive wages consistent with City Policy and to eliminate inequities that result with implementation of the MWO, our office recommends that the LWO be amended to align the wage rates of the City’s LWO to the wage rates of the City’s MWO beginning July 1, 2017. By having consistent wage rates between the LWO and the MWO, the City will be able to streamline both policies and bring efficiencies to wage enforcement for the BCA. This would ensure that employees for City contractors and subcontractors within and outside the geographic boundaries of the City would be paid a single, consistent wage rate. This will reduce confusion among employers in the wage rate they should be paying to their employees.

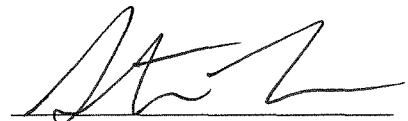
In order to allow for employers under the LWO to transition to the newly proposed LWO wage rate, we recommend reducing the health benefit under the LWO from \$1.25 to \$1.13. Currently, with the health benefit under the LWO, employers are required to either provide health benefits for their employees or opt to pay the \$1.25 as a cash wage in-lieu of the health benefit. According to BCA, the majority of employees who are earning wages under the LWO are receiving the \$1.25 health benefit as cash in-lieu from employers. As the majority of employers opt to provide cash

in-lieu, reducing the health benefit cost will help ease the transition for employers to the newly proposed LWO wage rates. If an employee receives cash in-lieu of the health benefit, the combination of the newly proposed wage rate of \$12.00 per hour with the reduced \$1.13 health benefit will result in a rate of \$13.13 per hour.

Lastly, we recommend that beginning July 1, 2018, when both the newly aligned living wage and minimum wage rates reach \$13.25 per hour, the LWO health benefit of \$1.13 per hour should sunset. As the City's living wage rates become equated to the minimum wage rates, by July 1, 2018, the recommended LWO rate of \$13.25 per hour without the health benefit is a greater wage rate than the LWO rate in the administrative code currently both with and without the newly proposed health benefits.

In amending the LWO, the City should maintain the requirements for compensated (12 days) and uncompensated (10 days) time off for employees who work for City contractors and subcontractors. When establishing the LWO in 1997, the City found that it holds a proprietary interest and genuine stake in the work performed by employees employed by lessees and licensees of City property and by their service contractors and subcontractors. In order to ensure a strong work force operating on behalf of the City, the LWO was established and adopted to improve the level of services to and for the City by requiring City contractors to provide employees a wage higher than the California Minimum Wage, health benefits, and compensated and uncompensated days off. Continuing this benefit would be consistent with this long-standing City policy.

Related to this, an issue that is currently pending is the Los Angeles World Airport (LAWA) hospitality wage rates under the LWO. Similar to the City's living wage rates, by July 1, 2018, the City's MWO wage rates will surpass the LAWA LWO wage rates of \$13.25 per hour and \$12.41 per hour, respectively. City departments and staff are currently discussing policies and options to better align the LAWA LWO wage rates with the MWO wage rates. Options will be presented to Council at a later date.



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