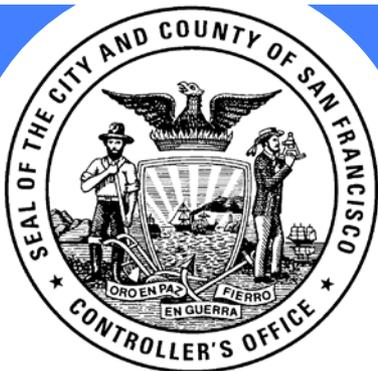


Minimum Compensation Ordinance Nonprofit Working Group: Report, Findings, & Recommendations



CITY & COUNTY OF SAN FRANCISCO

April 1, 2019

Overview of Minimum Compensation Changes

- The Mayor and Board of Supervisors approved changes to the City's Minimum Compensation Ordinance (MCO) in September 2019. The changes increased required pay rates for workers on private, nonprofit, and public agency (IHSS) City contracts on different schedules and to different wages.
- For contracts and contract amendments with nonprofit corporations, hourly gross compensation will be adjusted to \$16.50 as of July 1, 2019, provided that adequate funds are appropriated to pay for the direct costs of the change.
- On July 1, 2020, and annually thereafter on July 1, the hourly gross compensation shall increase according to the increase in the Consumer Price Index. The July 1, 2019 and Consumer Price Index increases go into effect only if the City appropriates funds for the increases and the Controller certifies that such funds are sufficient to pay for the increase.

Working Group Mandate

The Working Group shall consider and advise on methods to address anticipated issues that would result from an increase in the hourly compensation rate for employees under contracts with nonprofit corporations, including but not limited to:

- (A) **Wage equity:** the inequity that occurs when workers funded by a City contract receive a higher wage than other workers who are performing the same work but are funded by non-City contracts; and
- (B) **Wage compaction:** the inequity that occurs when the difference between wage levels is reduced because one worker funded by a City contract receives an increased wage while other workers do not.

Final Report for submission to the Board of Supervisors and the Mayor by April 1, 2019.

Working Group Members

Jenny Louie, Department of Public Health	City Department
Dan Kaplan, Human Services Agency	City Department
Ben Rosenfield, Controller	City Department
Ben Sizemore, SEIU	Labor Organization
Rudy Gonzalez, Labor Council	Labor Organization
Will Pope, Tenderloin Housing Clinic	Nonprofit Employee
Ramses Teon Nichols, Community Housing Partnership	Nonprofit Employee
Darrell Millner, Saint Vincent de Paul	Nonprofit Employee
Beth Stokes, Episcopal Community Services	Nonprofit Management
Jilma Meneses, Catholic Charities	Nonprofit Management

Public attendees included representatives from:

- Nonprofit Contractors
- Nonprofit Coalitions
- Unions
- Board of Supervisors
- Mayor's Budget Office

Working Group Meeting Topics

Overview Meeting 1 - 1/22/19

- MCO and Committee overview
- Controller's Office analysis of nonprofit impacts
- Key questions and approach for committee

Indirect Cost Pressures

Meeting 2 -
2/27/19

- **Wage compaction** for employees at more than \$16.50/hr (vertical pressures)
- **Wage pressure** for non-City contract employees (horizontal pressures)

MCO Administration

Meeting 3 -
3/22/19

- Acknowledging cost pressures
- How City funds should be allocated across providers
- Review findings and recommendations

Sample of Considerations Raised from Working Group Members and Public Attendees

- Consider effects of MCO on:
 - Overhead staff
 - Fringe benefits
 - Worker eligibility for government benefit programs
- Consider effect of minimum wage increase in addition to MCO.
- Consider impact on non-City funded nonprofits trying to compete.
- There is a need to address workers paid by multiple funding sources.

Sample of Considerations Raised from Working Group Members and Public Attendees

- Wage Compaction:
 - Consider of compaction level above MCO.
 - Consider compaction up to \$30/hour, which is twice the future state minimum wage and more than 50% Area Median Income for a family of four, a common eligibility criteria for certain programs.
 - Absolute increase vs. diminishing impact at various levels.
- Wage Equity:
 - Consider level of City vs. non-City organizational funding.
 - Other potential drivers of wage equity in an organization:
 - Make-up of non-City funding sources
 - Location of employees on non-City funding sources (including outside San Francisco)
 - Make-up of work performed on City vs. non-City contracts

What the Working Group Finds & Recommends:

1) The Working Group finds that nonprofit in San Francisco face growing and significant cost pressures that impact their sustainability and ability to provide consistent services, exacerbated by but not limited to:

- Difficulties in recruiting and retaining employees due to low wages, competition with higher-paid sectors, and the cost of housing in San Francisco.
- An array of compensation mandates including paid and unpaid time off, sick leave and parental leave, and health insurance requirements and regulations that enforce specific spending levels.
- A historical funding model that does not cover the full cost of services, with cost of doing business increases often below the rate of inflation.

The Working Group recommends that subsequent findings and recommendations be considered in the context of these constraints.

Approved by Working Group: 10-0

What the Working Group Finds & Recommends:

2) The Working Group recommends that the Mayor and Board of Supervisors allocate funds in the FY 2019-20 City budget to address not only direct impacts of the MCO, but to address and mitigate:

- A. Wage compaction for workers above the MCO on City contracts, and
- B. Equity pressures the MCO creates for lower paid workers on non-City contracts.

Approved by Working Group: 10-0

3) The Working Group estimates that the direct cost of the MCO on City contracts will be \$1.3M, and the wage compaction for workers earning under \$30 per hour on City contracts will result in estimated costs of \$12.9M, for total impact on City contracts of \$14.2M.

Approved by Working Group: 7-3

What the Working Group Finds & Recommends:

4) The Working Group estimates that the equity pressures the MCO creates for lower paid workers earning under \$30 per hour on non-City contracts will result in estimated costs of \$12.7M.

Approved by Working Group: 7-3

5) The Working Group finds that the impacts on individual organizations and their workers are varied, given a host of factors that do not lend themselves to across-the-board allocations of available funds.

Approved by Working Group: 10-0

6) To run an efficient process that acknowledges this complexity, the Working Group recommends that the City conduct a transparent, citywide application process whereby nonprofits would submit information to the City and funds would be allocated, in line with agreed upon principles, based upon this reported need.

Approved by Working Group: 10-0

What the Working Group Finds & Recommends:

7) The Working Group recommends that the Controller's Office design and conduct this process, in consultation with nonprofits and labor representatives, with final funding allocations determined no later than September 1, 2019. Given conflicts between the timing of the legislated wage increases and the City's budget process, the Working recommends that direct wage impacts be allocated as soon as possible following adoption of the City's budget.

Approved by Working Group: 10-0

Summary of Dissenting Opinions

Dissent Related to Finding 3 (Rosenfield, Louie, Kaplan)

- Each organization will respond differently to wage compaction depending on many factors, including the wage distribution for employees earning more than the MCO and labor agreements that dictate certain differentials between job classes. Three City staff on the committee voted no with the stated belief that a range of costs would better reflect the actual amount needed to fund the expected variable response by nonprofits.

Dissent Related to Finding 4 (Rosenfield, Louie, Kaplan)

- Many large nonprofits operate regionally, and three City staff on the committee voted no with the stated concern that (1) this would set an expectation of City funds supporting non-City contract work in other counties which would not be appropriate and (2) that a range or tiered cost estimate would better reflect the actual amount needed to fund the expected variable response by nonprofits to equity pressures of the MCO.

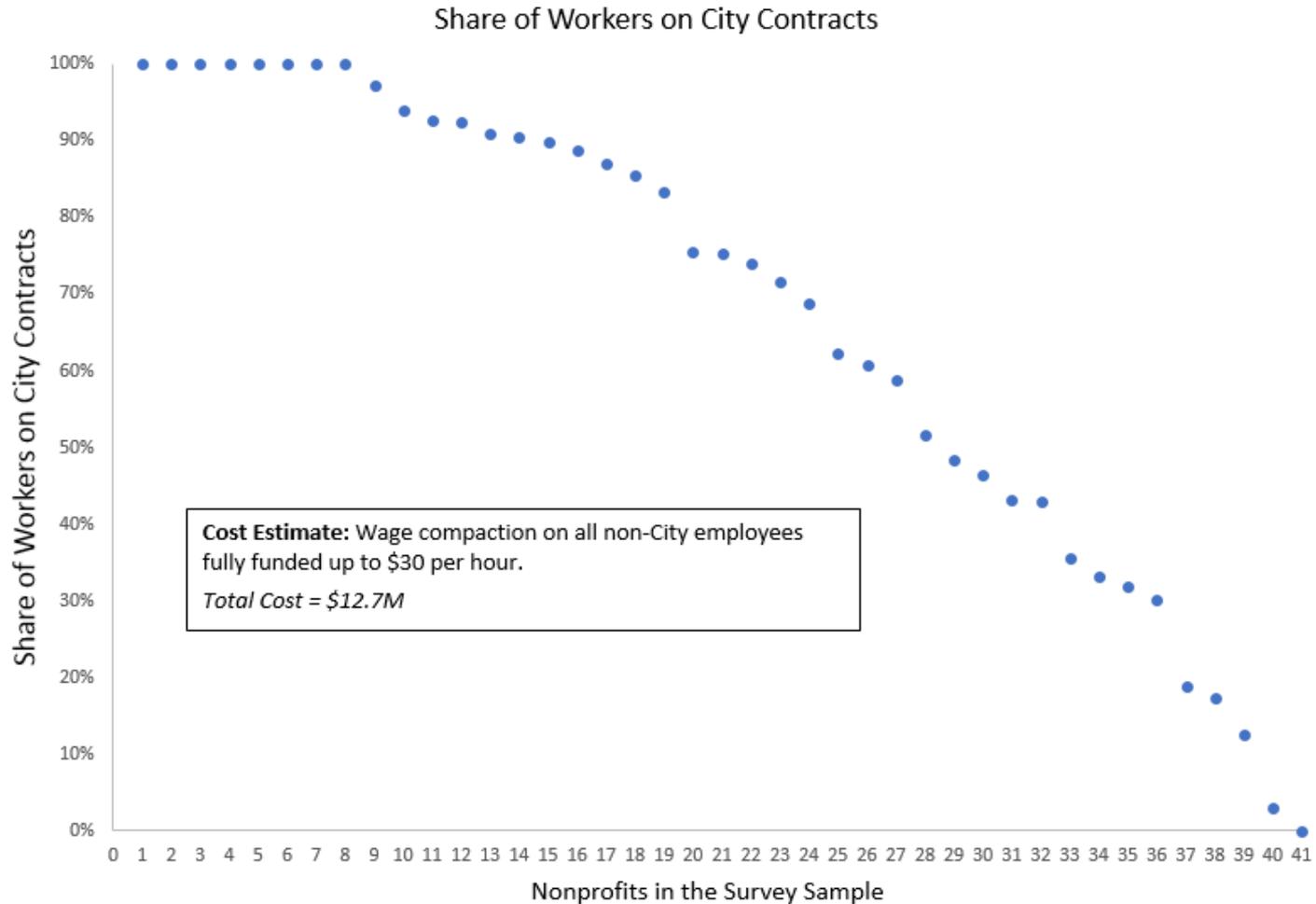
Appendices

The information that follows includes various analyses and materials considered by the Working Group during its meetings.

Cost Scenario for Finding 3



Cost Scenario for Finding 4



The Controller's Office Nonprofit Survey

The Controller's Office conducted a survey in August 2018 to estimate the impact of an MCO increase on nonprofits.

The sample of nonprofits was taken from a list of all nonprofits with City contracts greater than \$50,000. The sample was weighted such that larger nonprofits were more likely to be chosen for the sample than smaller nonprofits.

The survey asked nonprofits to identify the number of full-time equivalent (FTE) employees that were in each of seven wage ranges within the overall range of \$15.00 to \$30.00 per hour.

Nonprofits provided this allocation separately for City funded contracts and non-City funded contracts.

The Survey Sample

Summary of Survey Response

	City Vendors with Contracts Over \$50,000	Survey Links Sent	Responses
Number of Organizations	457	113 (25% of Citywide Total)	42 (37% Response Rate)
Contract Value	\$728 million	\$513 million (75% of Citywide Total)	\$219 million (43% of Survey Recipient Contract Value)

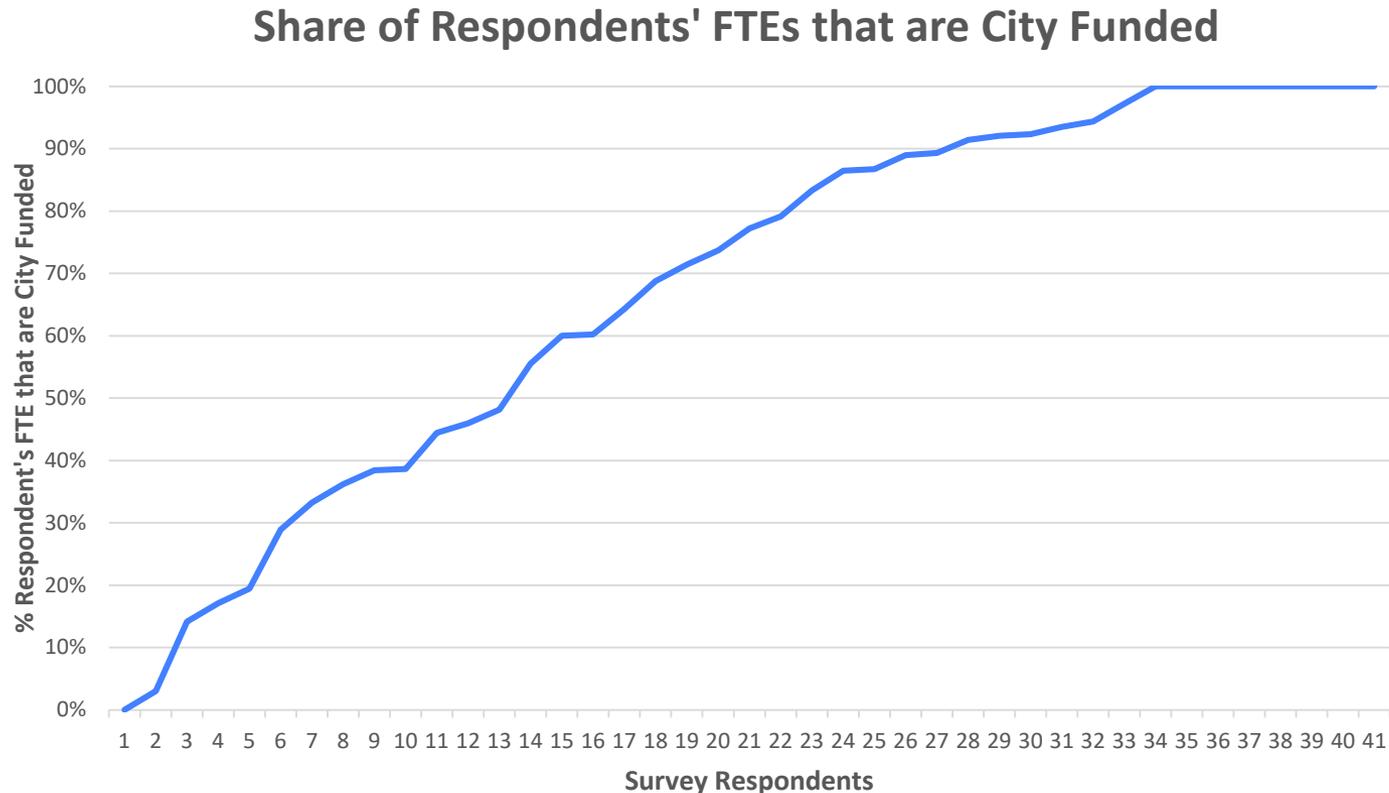
The Survey Sample

FTEs by Wage Category, as Reported by the 42 Survey Respondents

Wage Rate	City Funded							NON-City Funded						
	\$25.00- \$30.00	\$20.00- \$24.99	\$17.00- \$19.99	\$16.50 - \$16.99	\$16.00 - \$16.49	\$15.50- \$15.99	\$15.00- \$15.49	\$25.00- \$30.00	\$20.00- \$24.99	\$17.00- \$19.99	\$16.50 - \$16.99	\$16.00 - \$16.49	\$15.50- \$15.99	\$15.00- \$15.49
Total FTEs in Sample	337	691	326	51	49	62	192	445	594	398	49	53	26	131
FTEs as % of Total FTEs	20%	40%	19%	3%	3%	4%	11%	26%	35%	23%	3%	3%	2%	8%

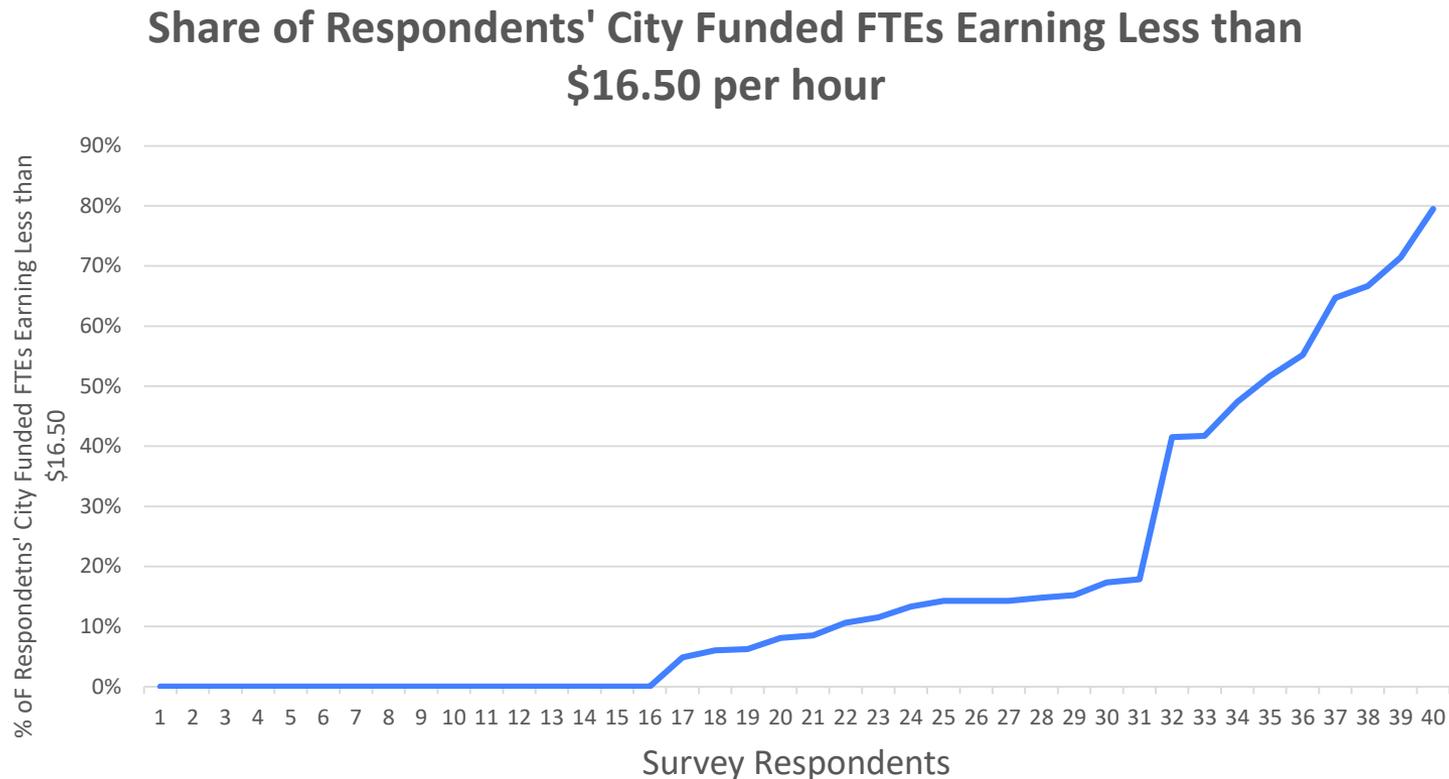
The Survey Sample – Non-City Funded FTEs

Survey respondents showed no pattern in the share of their FTEs that were funded by the City. The range was from almost 0% to 100%.



The Survey Sample – FTEs Affected by the MCO

Sixteen survey respondents reported they had no FTEs earning less than \$16.50 per hour. Six respondents reported that more than half their FTEs earned less than \$16.50.



Summary of Impacts – Direct & Indirect Cost Estimates & Assumptions

The direct cost of raising the MCO \$1 above minimum wage is estimated to be \$1.3 million. Allowing for wage compaction increases up to \$22.50 per hour raises the estimated direct and indirect cost to \$7.0 million. If the MCO were applied to non-City contracts, the direct cost would be \$0.8 million, and \$6.5 million including wage compaction.

City Contracts Only					
MCO Wage in FY 2019-20	Approximate Minimum Wage for FY 2019-20	MCO Wage Increase above Minimum Wage	MCO Direct Cost (No Wage Compaction) (\$ millions)	MCO Cost with Wage Compaction (\$ millions)	
				(Up to \$22.50/Hour)	(Up to \$27.50/Hour)
\$16.50	\$15.50	\$1.00	\$ 1.3	\$ 7.0	\$ 10.2

Non-City Contracts Only					
MCO Wage in FY 2019-20	Approximate Minimum Wage for	MCO Wage Increase above	MCO Direct Cost (No Wage Compaction)	Cost with Wage Compaction	
				(Up to \$22.50/Hour)	(Up to \$27.50/Hour)
\$16.50	\$15.50	\$1.00	\$ 0.8	\$ 6.5	\$ 9.8

Wage Compaction assumes all employees up to the given threshold receive a wage increase equal to the increase in the MCO. The estimated cost for non-City contracts assumes that non-City contract costs for nonprofits not in the survey are proportional to non-City contract costs for nonprofits included in the sample.

Follow-Up from Prior Meeting:
Were Survey Respondents from All City Service Areas?

Value of City Contracts in Survey Pool by Major Service Areas

Major Service Area	Total Payments
Human Welfare and Neighborhood Development	\$ 103,009,120
Community Health	\$ 93,030,902
General Administration and Finance	\$ 11,889,232
Public Works, Transportation, and Commerce	\$ 11,569,904
Culture and Recreation	\$ 1,689,024
Public Protection	\$ 1,439,693
Grand Total	\$ 222,627,875