

SENATE RULES COMMITTEE

SB 3

Office of Senate Floor Analyses
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UNFINISHED BUSINESS

Bill No: SB 3
Author: Leno (D), De León (D), and Leyva (D), et al.
Amended: 3/28/16
Vote: 21

SENATE LABOR AND IND. REL. COMMITTEE: 4-1, 4/8/15
AYES: Mendoza, Jackson, Leno, Mitchell
NOES: Stone

SENATE APPROPRIATIONS COMMITTEE: 5-2, 5/28/15
AYES: Lara, Beall, Hill, Leyva, Mendoza
NOES: Bates, Nielsen

SENATE FLOOR: 23-15, 6/1/15
AYES: Allen, Beall, Block, De León, Hall, Hancock, Hernandez, Hertzberg, Hill,
Hueso, Jackson, Lara, Leno, Leyva, Liu, McGuire, Mendoza, Mitchell,
Monning, Pan, Pavley, Wieckowski, Wolk
NOES: Anderson, Bates, Berryhill, Cannella, Fuller, Gaines, Huff, Moorlach,
Morrell, Nguyen, Nielsen, Roth, Runner, Stone, Vidak
NO VOTE RECORDED: Galgiani, Glazer

SENATE LABOR AND IND. REL. COMMITTEE: 4-1, 3/31/16 (pursuant to
Senate Rule 29.10)
AYES: Mendoza, Jackson, Leno, Mitchell
NOES: Stone

ASSEMBLY FLOOR: 48-26, 3/31/16
(ROLL CALL NOT AVAILABLE)

SUBJECT: Minimum wage: in-home supportive services: paid sick days

SOURCE: Author

DIGEST: This bill requires paid sick days for the In-Home Supportive Services (IHSS) workers, creates a schedule for a phased increase in the minimum wage from \$10.50 per hour to \$15 per hour over seven years, depending on the size of the employer and general economic conditions, and links the minimum wage to the U.S. Consumer Price Index (CPI) once the minimum wage reaches \$15 per hour.

Assembly Amendments create a schedule for a phased increase in the minimum wage from \$10.50 per hour to \$15 per hour over seven years, depending on the size of the employer and general economic conditions, specify annual increase of the minimum wage to the CPI once the minimum wage reaches \$15 per hour, require paid sick days for IHSS workers, and create a schedule for the annual accrual of paid sick days for IHSS workers.

ANALYSIS: Existing federal law sets the minimum wage at \$7.25 an hour. (Fair Labor Standards Act of 1938, 29 U.S.C. Chapter 8)

Existing state law:

- 1) States that when state and federal laws differ, one must comply with the more restrictive requirement. In California, the minimum wage is \$10.00 an hour. (Labor Code §1182.12)
- 2) Excludes In-Home Supportive Services (IHSS) employers from the requirement that employers provide paid sick days. (Labor Code §245.5)

This bill incrementally increases the state's minimum wage, depending on the size of the employer, and then ties annual minimum wage increases to the CPI, which is a measure of inflation.

This bill phases in the following increase for employers with 26 or more employees:

- 1) From January 1, 2017, to December 31, 2017, inclusive,— \$10.50 per hour.
- 2) From January 1, 2018, to December 31, 2018, inclusive,— \$11 per hour.
- 3) From January 1, 2019, to December 31, 2019, inclusive,— \$12 per hour.
- 4) From January 1, 2020, to December 31, 2020, inclusive,— \$13 per hour.
- 5) From January 1, 2021, to December 31, 2021, inclusive,— \$14 per hour.
- 6) From January 1, 2022, and until adjusted by the CPI—\$15 per hour.

This bill phases in the following increase for employers with 25 or fewer employees:

- 1) From January 1, 2018, to December 31, 2018, inclusive,— \$10.50 per hour.
- 2) From January 1, 2019, to December 31, 2019, inclusive,— \$11 per hour.
- 3) From January 1, 2020, to December 31, 2020, inclusive,— \$12 per hour.
- 4) From January 1, 2021, to December 31, 2021, inclusive,— \$13 per hour.
- 5) From January 1, 2022, to December 31, 2022, inclusive,— \$14 per hour.
- 6) From January 1, 2023, and until adjusted by the CPI—\$15 per hour.

This bill requires that, after January 1, 2023, the minimum wage will be increased annually from the seasonally adjusted the CPI, but no more than 3.5% in a year, with the resulting amount rounded to the nearest \$0.10. The increase shall be calculated on August 1 to take effect on January 1 of the following year.

This bill allows the Governor to suspend the incremental minimum wage increases if the following occurs:

- 1) Total nonfarm employment for California, seasonally adjusted, decreased over the three-month period from April to June, inclusive; or
- 2) Total nonfarm employment for California, seasonally adjusted, decreased over the six-month period from January to June, inclusive.

And:

- 3) Retail sales and use tax cash receipts from July 1 to June 30, inclusive, period is less than retail sales and use tax cash receipts for the July 1 to June 30, inclusive, period ending 13 months prior to the July 28 determination.

Or:

- 4) The Director of Finance finds that a minimum wage increase would push the state budget into deficit in the current fiscal year, or in either of the following two fiscal years. The Governor may suspend the minimum wage increase due to a General Fund deficit only twice.

Minimum wage suspensions may occur until the minimum wage reaches \$15 per hour. If suspended, all remaining phased minimum wage increases are advanced by a year.

This bill also:

- 1) Removes the exemption for IHSS workers from the paid sick days statute;

- 2) Sets the paid sick days annual accrual rate for IHSS workers to eight hours or one paid sick day in 2018;
- 3) Sets the paid sick days annual accrual rate for IHSS workers to 16 hours or two days in 2019, or when the minimum wage hits \$13.00 per hour for employers of 26 employees or more, whichever is later; and
- 4) Sets the paid sick days annual accrual rate for IHSS workers to 24 hours or three paid sick days in 2020, or when the minimum wage hits \$15 per hour for employers of 26 employees or more, whichever is later.

Comments

1) *Minimum Wage Federally and in Other States*

In 1938, the Fair Labor Standards Act established a national minimum wage for workers in the United States. On a federal level, the minimum wage has been periodically raised. Beginning in the 1980s and 1990s, the federal minimum wage saw few significant increases which led to more than half of the states to enact higher state-level minimum wages, including California. According to the National Conference of State Legislatures, as of February 24, 2015, 29 states and D.C. have minimum wages above the federal minimum wage of \$7.25.

Additionally, 15 states, plus the District of Columbia, index their minimum wage to rise automatically with cost of living. Eleven states, including all of California's neighbors, currently index minimum wage increases each year: Arizona, Colorado, Florida, Missouri, Montana, Nevada, New Jersey, Ohio, Oregon, South Dakota, and Washington. Four more states, plus the District of Columbia, will index minimum wage increases annually beginning in future years: Alaska (2017), Michigan (2019), Minnesota (2018), and Vermont (2019).

2) *Impact of Minimum Wage on Employment: Research Findings*

Conventional economic theory would predict that a rise in minimum wage leads perfectly competitive employers to reduce their workforce. David Card and Alan Krueger authored a minimum wage study in 1992 entitled "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania" which evaluated the effects of New Jersey and Pennsylvania's minimum wage on employment. The authors also compared employment, wages, and prices at stores before and after the wage increase in

both states and found no evidence that the rise in New Jersey's minimum wage reduced employment at fast-food restaurants in the state.

In a more recent economic study published in 2012 by Arindrajity Dube, T. William Lester, and Michael Reich looked at the effects of minimum wages on employment flows in the U.S. labor market in "Minimum Wage Shocks, Employment Flows and Labor Market Frictions." They used nationally representative data to provide the minimum wage elasticities of earnings as well as employment flows and stocks for teens and the restaurant industry. Dube, Lester, and Reich concluded that minimum wage increases can reduce the turnover that characterizes the low-wage segment of the labor market and even allows for the possibility of improving the structure and functioning of the low wage labor market without substantially affecting employment.

A Center on Wage and Employment Dynamics policy brief from the Institute for Research on Labor and Employment at University of California, Berkeley compared the effects of state minimum wage increases in California, specifically the effects of \$10, AB 10 (Alejo 2013) and \$13 minimum wage SB 935 (Leno 2014). Entitled "Ten Dollars or Thirteen Dollars? Comparing the Effects of State Minimum Wage Increases in California," the report found that while AB 10 restores some of the lost ground in recent years, it maintains the inflation-adjusted minimum wage at about the same level as in 1988. The authors found that an increase to \$13 goes farther, raising the real minimum wage to just about the peak value obtained in 1968. The authors concluded that California businesses are likely to absorb the increased labor costs of an increase in the minimum wage with offsets from increased worker productivity, declines in recruitment and retention costs, and with small price increases in the restaurant industry.

3) *What is the CPI?*

As was noted above, annual increases to the minimum wage after it reaches \$15 per hour are tied to increases in the CPI. CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. This market basket is based on 200 categories in eight major goods and services groups. The groups are:

- a) FOOD AND BEVERAGES (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks);

- b) HOUSING (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture);
- c) APPAREL (men's shirts and sweaters, women's dresses, jewelry);
- d) TRANSPORTATION (new vehicles, airline fares, gasoline, motor vehicle insurance);
- e) MEDICAL CARE (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services);
- f) RECREATION (televisions, toys, pets and pet products, sports equipment, admissions);
- g) EDUCATION AND COMMUNICATION (college tuition, postage, telephone services, computer software and accessories); and
- h) OTHER GOODS AND SERVICES (tobacco and smoking products, haircuts and other personal services, funeral expenses).

The CPI is calculated by the federal Department of Labor every year from detailed spending information from families and individuals. The specific CPI used for annual minimum wage increases is *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W), which is a subset of the total CPI that measures spending for families and individuals where more than one-half of the household's income must come from clerical or wage occupations, and at least one of the household's earners must have been employed for at least 37 weeks during the previous 12 months. The CPI-W population represents about *32 percent of the total U.S. population*. As such, CPI-W can be seen as a cost-of-living index for the purchase price of goods and services, such as food, clothing, and housing, for working individuals and families.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Assembly Appropriations Committee:

- 1) Current year costs of approximately \$19 million General Fund (GF), and Budget Year costs of approximately \$40 million GF, to increase state minimum wages for IHSS, Department of Developmental Services and civil service employees from \$10 an hour to \$10.50 an hour starting January 1, 2017. These costs include offsetting savings to Medi-Cal and CalWORKS programs, assuming increases in the minimum wage will result in individuals and families no longer qualifying for all or a portion of these services. The Administration estimates costs of \$3.6 billion GF assuming a minimum wage of \$15 an hour is provided by 2022-23.

- 2) GF costs of approximately \$90 million GF in 2018-19 to provide one day of sick leave to the approximately 468,000 IHSS providers in California. These costs are estimated to increase to approximately \$227 million GF in 2022-23, when the state provides three paid sick days per year. Medi-Cal does not provide federal funding for services not rendered by IHSS providers, therefore, the state is responsible for the costs of a provider's wage while on paid sick leave. These cost estimates also include back up provider costs, Case Management, Information and Payroll System automation changes and Department of Social Services administrative costs.

SUPPORT: (Verified 3/31/16)

SEIU - California State Council (co-source)
United Food and Commercial Workers (co-source)
Western Center on Law and Poverty (co-source)
Insurance Commissioner Dave Jones
9to5 California, National Association of Working Women
ACLU
AFSCME Council 57
AFSCME, AFL-CIO
Alliance of Californians for Community Empowerment
American Academy of Pediatrics, California
California Alliance for Retired Americans
California Association of Food Banks
California Catholic Conference of Bishops
California Communities United Institute
California Conference Board of the Amalgamated Transit Union
California Conference of Machinists
California Employment Lawyers Association
California Equity Leaders Network
California Federation of Teachers
California Hunger Action Coalition
California Immigrant Policy Center
California Labor Federation
California Nonprofits
California Partnership
California Rural Legal Assistance Foundation
California School Employees Association
California Teachers Association
California Teamsters Public Affairs Council
Californians United for a Responsible Budget

Children's Defense Fund-California
Cities Association of Board of Directors
City and County of San Francisco
City of Long Beach
City of Los Angeles
City of Mountain View
City of San Jose
City of Sunnyvale
Coalition of California Welfare Rights Organizations, Inc.
Community Food and Justice Coalition
Consumer Federation of California
County of Napa
County Welfare Directors Association of California
Engineers and Scientists of California, IFPTE Local 20, AFL-CIO
Family Economic Security Partnership
Friends Committee on Legislation
Glendale City Employees Association
International Longshore and Warehouse Union
Long Beach Mayor Robert Garcia
Los Angeles Mayor Eric Garcetti
National Association of Social Workers, California Chapter
National Employment Law Project
Oakland Mayor Libby Shaaf
Older Women's League Sacramento Capitol
Organization of SMU Employees
Organize Sacramento
Professional and Technical Engineers, IFPTE Local 21, AFL-CIO
Redlands Area Democratic Club
Roots of Change
Sacramento Central Labor Council, AFL-CIO
San Bernardino Public Employees Association
San Diego County Court Employees
San Diego Hunger Coalition
San Francisco Mayor Ed Lee
San Francisco Unified School District
San Jose Mayor Sam Liccardo
San Luis Obispo County Employees Association
Santa Ana Mayor Miguel Pulido
The Women's Foundation of California
United Domestic Workers of America AFSCME Local 3930

UNITE-HERE, AFL-CIO
Utility Workers Union of America
Western Regional Advocacy Project
Young Invincibles

OPPOSITION: (Verified 3/31/16)

Agricultural Council of California
Air Conditioning Trade Association
Alhambra Chamber of Commerce
American Pistachio Growers
Associated Builders and Contractors – San Diego Chapter
Association of California Egg Farmers
Auburn Chamber of Commerce
Brea Chamber of Commerce
California Agricultural Aircraft Association
California Ambulance Association
California Asian Pacific Chamber of Commerce
California Association of Nurseries and Garden Centers
California Association of Wheat Growers
California Association of Winegrape Growers
California Attractions and Parks Association
California Bean Shippers Association
California Building Industry Association
California Business Properties Association
California Chamber of Commerce
California Citrus Mutual
California Cotton Ginners Association
California Cotton Growers Association
California Craft Brewers Association
California Dairies, Inc.
California Farm Bureau Federation
California Grain and Feed Association
California Grocers Association
California League of Food Processors
California Pear Growers Association
California Pool and Spa Association
California Professional Association of Specialty Contractors
California Restaurant Association
California Retailers Association
California Seed Association

California State Floral Association
California Taxpayers Association
Camarillo Chamber of Commerce
Carlsbad Chamber of Commerce
Chamber of Commerce Alliance of Ventura and Santa Barbara Counties
Culver City Chamber of Commerce
Desert Hot Springs Chamber of Commerce
El Centro Chamber of Commerce
El Dorado Hills Chamber of Commerce and California Welcome Center
Family Business Association of California
Greater Bakersfield Chamber of Commerce
Greater Conejo Valley Chamber of Commerce
Greater Fresno Area Chamber of Commerce
Greater Riverside Chamber of Commerce
International Franchise Association
Irvine Chamber of Commerce
Lake Elsinore Chamber of Commerce
Los Angeles Area Chamber of Commerce
Molly Maid of Placer County
Montclair Chamber of Commerce
Murrieta Chamber of Commerce
National Federation of Independent Business
Nisei Farmers League
North Orange County Chamber of Commerce
Official Police Garages Association of Los Angeles
Ojai Valley Chamber of Commerce
Orange County Business Council
Oxnard Chamber of Commerce
Palm Desert Area Chamber of Commerce
Plumbing-Heating-Cooling Contractors Association of California
Porterville Chamber of Commerce
Redondo Beach Chamber of Commerce & Visitors Bureau
Roseville Area Chamber of Commerce
Santa Ana Chamber of Commerce
Santa Maria Valley Chamber of Commerce Visitor & Convention Bureau
South Bay Association of Chambers of Commerce
Temecula Chamber of Commerce
The Chamber of the Santa Barbara Region
The Greater Corona Valley Chamber of Commerce
Torrance Area Chamber of Commerce

United Ag
Valley Industry & Commerce Association
Victor Valley Chamber of Commerce
VinoPRO
Western Agricultural Processors Association
Western Electrical Contractors Association
Western Growers Association

ARGUMENTS IN SUPPORT: Proponents note that SB 3 will raise the minimum wage gradually to \$15 per hour, as well as grant paid sick days to IHSS workers. Proponents argue that the existing minimum wage is simply too little for a family to survive on, noting that a minimum wage worker currently earns less than \$21,000 per year, assuming he or she works 40 hours in a workweek. Proponents also cite a recent study that found the current minimum wage, when adjusted to inflation, is at about the same as the minimum wage paid in 1988 and far from the inflation-adjusted minimum wage paid in 1968. Proponents argue that SB 3 will ensure that the minimum wage is sufficient to keep families above the poverty line by increasing the minimum wage to \$15 per hour and tying the minimum wage to the CPI. Yet, Proponents also argue that SB 3 includes important “pause” provisions that will ensure that the minimum wage increase will be delayed in the event of a recession or budget deficit.

ARGUMENTS IN OPPOSITION: Opponents argue that SB 3 is an unacceptably large wage increase in a short period of time, threatening to overwhelm California’s small businesses. Specifically, opponents note that a \$15 per hour minimum wage will impact different areas of the state differently, as some areas of the state have completely emerged from the Great Recession and others have not. Opponents also note that the “off-ramps” which suspend the increases to the minimum wage are discretionary and not applicable once the minimum wage crosses the \$15 per hour threshold, which opponents argue is not sufficient protecting for California’s economy. Opponents also cite several studies which suggest that increasing the minimum wage creates job losses for unskilled labor and does not target individuals living in poverty.

Prepared by: Gideon Baum / L. & I.R. / (916) 651-1556
3/31/16 12:34:14

**** END ****