

Employers' Perspectives on San Francisco's Paid Sick Leave Policy

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EMPLOYERS' PERSPECTIVES ON SAN FRANCISCO'S PAID SICK LEAVE POLICY

Over the past several years, paid sick leave has become an important issue on the policy stage.¹ A 2004 report by the Institute for Women's Policy Research helped thrust sick leave into the spotlight when it found that 49 percent of all workers were unable to take paid sick leave for themselves or for sick family members (Lovell 2004). Other research has confirmed that an even greater share of the workforce—54 percent—cannot take time off from work to care for sick children without losing pay or using vacation time (Galinsky, Bond, and Hill 2004). Eighty-three percent of workers go to work when they are ill, and 21 percent do so explicitly to save their sick leave to stay home when their children are sick (CompPsych Corporation 2007).

A key finding in much of this research is that low-income workers often lack access to paid time off. In fact, data from nationally representative samples show that high-wage employees are more than twice as likely as low-wage employees to be able to take time off without penalties to care for their sick children (Galinsky et al. 2004). According to the Labor Department, private-sector workers making less than \$15 an hour are less likely than higher-paid workers to have access to any paid sick time, paid vacation time, or paid personal time (U.S. Bureau of Labor Statistics 2007). Children in low-income families are also much less likely to have a parent with paid sick leave than children in higher-income families, even among families with two employed parents (Clemans-Cope et al. 2008).

To address this lack of paid sick leave, several jurisdictions have implemented or are considering a new labor standard that would require employers to provide paid sick leave. The city of San Francisco was the first to pass such a law in 2006, but it is by no means alone in its efforts. In March 2008, the District of Columbia became the second locality to pass a mandate on employers guaranteeing paid sick leave to

workers. The bill is modeled after the San Francisco ordinance, but it differs on several details. Milwaukee, Wisconsin, voters also passed a sick leave mandate in November 2008. In addition, the federal government as well as other states and localities have introduced legislation on this issue (box 1).

A growing body of research shows the benefits to employees of having access to paid sick leave. In particular, the public health benefits appear strong; paid sick leave helps reduce the spread of infectious diseases, such as influenza, and hospitalizations and health care costs for preventable chronic conditions (Bhatia 2007; Hartmann 2007). One analysis finds that workers with preventable chronic conditions have less access to paid sick leave, suggesting that workers with greater medical care needs face an additional barrier to addressing their illnesses (Bhatia et al. 2008).

Information on the business impacts of providing paid sick leave is more limited. To be sure, many employers already provide sick leave benefits to some of or all their employees, in part because of benefits to their business. For example, the availability of paid sick leave has been linked to reduced voluntary and involuntary job turnover for employers (Cooper and Monheit 1993; Dodson, Manuel, and Bravo 2002; Earle and Heymann 2002; Heymann 2000). In addition, the provision of paid sick leave appears to improve business productivity by limiting “presenteeism,” or when employees work while ill, and ensuring that workers are healthier while on the job (CCH Incorporated 2003; Goetzel et al. 2004; Hemp 2004; Lovell 2004).

However, mandated employer benefits increase labor costs for businesses, which can lead to employer actions to minimize or offset these costs. A large body of research on employer mandates shows that businesses will generally pass on any increased costs to their employees, through reduced wages and benefits, or to their customers, through increased prices. To minimize costs, employers may also reduce workers’ hours to avoid workers’ benefits from accruing, or maintain lower staffing levels than they otherwise would, for example by reducing the number of employees. This is particularly likely for employers with a minimum-wage labor force, who face wage rigidity (Summers 1989). An initial look at San Francisco’s employment rate in the year following implementation showed that the city “maintained a competitive job growth rate” (Lovell and Miller 2008, 1). However, a paid sick leave requirement has unknown longer-term implications. The Institute for Women’s Policy Research has analyzed potential costs and benefits of paid sick leave policies and predicts a net savings for employers, employees and their families, and society (Lovell and Miller 2005). The National Federation of Independent Business, on the other hand, estimates major job losses and lost sales revenue associated with sick leave requirements (Phillips 2008a, 2008b).

BOX 1. Paid Sick Leave Policy Initiatives, 2008

Local legislation introduced

Philadelphia, PA

State legislation introduced

Alaska, California, Connecticut, Illinois, Maine, Massachusetts, Minnesota, North Carolina, Ohio, Pennsylvania, Vermont, and West Virginia

Federal legislation introduced

The Healthy Families Act was introduced in March 2007 by Senator Kennedy in the Senate and Representative DeLauro in the House of Representatives.

Source: National Partnership for Women and Families, “In the States,” http://www.nationalpartnership.org/site/PageServer?pagename=psd_toolkit_map_states.

San Francisco Ordinance and Context

The San Francisco Paid Sick Leave Ordinance (PSLO) passed as Proposition F by a ballot initiative sponsored by the San Francisco Board of Supervisors in November 2006. It amended the city’s administrative code by mandating that all employers grant their employees working in the city a minimum amount of paid sick leave. This law is notable in that it provides time off for health-related needs for the worker as well as the workers’ family members or other “designated person.” In addition, the law passed in San Francisco applies to all employers in the city, regardless of the size of the employer, and to all employees—part-time, full-time, and even temporary workers. The effective start date of the legislation was June 6, 2007. Additional details of the PSLO are explained in box 2.

The ordinance provided sick leave to an estimated 115,800 additional private-sector workers in San Francisco. These workers were eligible by the law’s provisions but previously lacked access to any paid sick days. Overall, an estimated one-quarter of the city’s private-sector workforce gained paid sick leave through the ordinance (Lovell 2006).

Two additional employer mandates implemented around the same time as the paid sick leave ordinance—a minimum wage increase (to \$9.36, a rate \$3.51 higher than the federal minimum wage, and \$1.36 higher than the state minimum wage, at the time the site visit was conducted) and a health insurance expenditure requirement—shaped employers’ perspectives on San Francisco’s business climate. It is important

BOX 2. San Francisco Paid Sick Leave Ordinance

The law: The San Francisco Paid Sick Leave Ordinance (PSLO) requires that all employers provide paid time for employees to take sick leave for themselves when they are ill or injured, or to receive medical care, treatment, or diagnosis. Employees can also take time to care for a family member or for a previously registered designated person if the employee has no spouse or registered domestic partner.

Employers with fewer than 10 employees must provide at least five days (40 hours) a year of paid sick leave; employers with more than 10 employees must provide nine days (72 hours) a year.

Sick leave accrues at 1 hour of paid time for every 30 hours worked, after an initial probation period of 90 days for new employees. There is a cap on the amount of hours an employee may accrue (40 hours for firms with fewer than 10 employees, and 72 hours for larger employers), but sick leave may carry over from year to year.

Effective date: PSLO went into effect on February 5, 2007, 90 days after the ballot vote. In March 2007, the Board of Supervisors established a 120-day transition period in which employees were still able to accrue paid sick leave, but employers were not required to pay for any sick time used. This transition period was created to provide some extra time for employers and city officials to address implementation questions.

Who is eligible: The law applies to all employees working within the city, including part-time and temporary employees.

Enforcement: PSLO is enforced through employee complaints that can be filed with the city’s Office of Labor Standards and Enforcement.

Other issues: Employers who already have paid leave policies that meet the requirements of the law do not have to provide additional paid sick leave. Employers governed by collective bargaining agreements are exempt from any requirements if the collective bargaining agreement explicitly waives them.

Recordkeeping: The ordinance also requires employers to maintain records of employees’ hours worked and the amount of paid sick leave accrued and used for four years.

to consider the effects of these additional mandates in interpreting the study findings. Box 3 describes these additional labor standards in San Francisco.

About This Study

Despite the body of research outlining the benefits of paid sick leave as well as research on employer and employment effects of benefit mandates more generally, none of the research to date has examined the experiences of employers implementing the new law. Given that San Francisco has passed the nation's first paid sick leave mandate, the results of this study should help other states and localities as they consider enacting this type of law.

To that end, we examined how the new paid sick leave law affected 26 employers during the initial implementation period. The study focused on how the law affected their costs, staffing, and overall operations; whether it caused them to alter wages or other benefits provided, or the costs of their services or products; and whether it had noticeably affected employee retention or morale. Interviews were conducted in March 2008, approximately nine months after the law became effective.

In selecting employers to include in the study, we focused on those that had changed their personnel policies to comply with the ordinance. We sought to include a wide range of employers with at least some low-wage workers (paying \$15 an hour or less). Participants were identified via employer associations and groups, nonprofit organizations, Internet searches, and discussions with local experts.

The study team conducted 20 in-person or telephone interviews and held two focus groups with 6 additional employers. Respondents were business owners, human resources managers, or public policy direc-

BOX 3. Additional California and San Francisco Employer Mandates

Minimum Wage

- As of January 1, 2008, the minimum wage in California is \$8.00 an hour. There is no separate minimum wage for tipped employees; an employer may not use an employee's tips as a credit toward its obligation to pay the minimum wage.
- San Francisco has its own minimum wage ordinance, which requires employers within the city to pay a minimum wage that is higher than the rest of the state. As of January 1, 2008, this rate is \$9.36 an hour. This rate has been raised incrementally each year since 2004, when it was \$8.50 an hour. In 2009, the minimum wage will be \$9.79 an hour, effective January 1.
- A separate minimum compensation ordinance (MCO) in San Francisco applies to employees of all businesses and organizations that have contracts with the city or lease property at San Francisco International Airport. The MCO hourly wage is \$11.03 an hour. In addition, these employees are guaranteed 12 paid and 10 unpaid days off a year.

Health Care Security Ordinance and Healthy San Francisco

- The Health Care Security Ordinance, effective as of January 2008, sets a minimum expenditure that employers must pay for their employees' health care. It applies to for-profit businesses with 20 or more employees and nonprofit businesses with 50 or more employees.
 - The ordinance also mandates the Department of Public Health to create a health care access plan, called *Healthy San Francisco*. Employers may also purchase private health insurance coverage for their covered employees or make payments to the city for the benefit of their covered employees.
- The expenditure rates and the date in which the ordinance goes into effect vary by employer size and for-profit or nonprofit status: Rates vary from \$1.17 per employee-hour worked for businesses with 20–100 employees to \$1.76 for those with more than 100 employees. Rates are due to increase in January 2009.

tors, or they were employed in a similar role and able to represent their firms' personnel policies. The employers included in the study represented different business sizes, from an employer with one part-time employee to a national company with 10,000 employees in San Francisco alone. We identified small businesses as those with 25 or fewer employees, medium businesses as those with 26 to 99 employees, and large businesses as those with more than 100 employees. The sample included a range of industries as well. The sectors represented were chosen to reflect the industries in San Francisco that employed high percentages of low-wage workers: the restaurant, retail, service, and health/human services industries. Table 1 breaks down the employers by size and industry.

This subset of the business community was chosen to highlight the operational experiences of those affected by the paid sick leave ordinance. The sample is not representative of San Francisco employers as a whole or of all employers that changed personnel policies to meet the requirements of the ordinance. This study also does not address the benefits or effects of the ordinance on workers themselves.

Employer Strategies for Implementing Paid Sick Leave

Employers in the study sample implemented the paid sick leave ordinance in various ways, from creating entirely new policies to tinkering with specific facets of previous policies in order to comply with the new requirements. The changes in their policies can be summarized into four broad categories: (1) expanding leave for all or some employees, (2) establishing a paid time off (PTO) policy, (3) replacing other benefits and compensation policies, and (4) changing accrual rates and probationary periods.

These strategies are not mutually exclusive, and a single employer can fall under more than one category. For example, an employer could change its policy from covering some employees to covering all workers, as well as change the probation period before new employees begin accruing sick time.

Expanding Leave for All or Some Employees

Four interviewed employers offered no paid sick or vacation leave to their employees before the law was passed and subsequently implemented a new paid sick leave policy and developed a new tracking system. These employers had allowed their workers to take sick leave, but it was unpaid and had limitations. One employer, the owner of a medium-sized restaurant, had in the past occasionally granted paid sick leave to workers informally and case by case, depending on the worker's circumstances. Several, particularly small business owners operated with more informal policies on leave before PSLO was passed, so meeting the requirements of the new law required them to formalize their policies. As one small business owner said, "Before, it was a courtesy—if someone wants to take a day off, I

TABLE 1. *Employers by Industry and Size*

Industry	Small	Medium	Large	Total
Restaurant	1	2	3	6
Retail	4	3	2	9
Service	2	2	2	6
Health and human services	1	1	3	5
Total	8	8	10	26

wouldn't dock their pay—you have to consider whether you want to be a strict boss or be more informal, like a family.”

Ten employers expanded their sick leave policies to some workers who had not been covered by former policies, resulting in increased time off for more workers at the business. In most of these cases, sick leave had only been available to full-time employees; the ordinance thus opened these companies' policies to part-time employees. In one small business, the employer had offered paid leave only to her two salaried, managerial employees; she began offering paid leave to her hourly employees as well to comply with the regulations. A large financial services company expanded its paid time off policy to previously ineligible on-call workers.

Establishing a Paid Time Off Policy

About one-quarter (seven) of the employers in the study enacted a paid time off system encompassing both sick and vacation leave to implement the paid sick leave ordinance, combining rather than separately tracking vacation and sick time accrual and use. Whether employees gained more paid days off depended on the employers' policies before the ordinance. For example, several employers went from granting some or none of their employees any paid vacation or sick leave to using PTO, thus increasing the overall amount of paid leave. Others reclassified what had previously been only vacation leave to encompass the sick leave requirement without providing any additional time off.

Employers switched to PTO for a range of reasons. Some employers believed PTO would be easier to track than separately calculating vacation and sick leave accruals, and thus switched out of convenience. Others didn't want to “police” their employees to ensure sick leave would be used for legitimate illnesses in employees' families. With PTO, the employee did not need to provide an explanation for taking the time off. For example, one dry cleaner changed what was a vacation policy to PTO to avoid the paperwork that would have been necessary for allowing workers to care for a “designated person” as specified by the city's regulations.

Several other employers were motivated to use a PTO system because they believed it would reduce unscheduled absences. For example, one small service-sector employee had a “historically bad pattern” of employees calling in sick on weekends and holidays even though she had not previously granted most of her employees any paid leave. She decided to implement a PTO policy because she preferred for her staff to give advance notice when they wanted time off and to pay for the leave rather than deal with the challenges of finding coverage for staff who called in at the last minute. Another employer, an owner of a medium-sized restaurant, described the switch to a PTO system as a way of providing a “disincentive” for workers to call in sick, as he assumes his workers prefer to save their paid leave for vacation.

Replacing Other Benefits and/or Compensation with Sick Leave

Ten employers adjusted alternate aspects of their personnel policy to compensate for providing sick leave. Common approaches included eliminating vacation time or other benefits or decreasing pay raises or bonuses. For these firms, implementing the paid sick leave ordinance led them to trade off previous benefits.

Three employers reclassified vacation time as sick leave to meet the new requirements. Sometimes the paid sick leave ordinance was more generous than the employers' previous policies and provided more paid

time off. This differs from PTO in that employees are typically not permitted to use their sick leave for non-health or caring purposes.

Interestingly, all three employers who replaced vacation time with sick leave were in the restaurant industry: two owned multiple restaurants or locations of the same restaurant and were classified as large employers, and one was a small restaurant. These employers explained that they could not afford to give their workers both forms of leave.

Three other employers eliminated or decreased benefits that they had supplied, such as end-of-year bonuses. Two small employers reported that they paid for sick leave with funds that had been allocated as bonus payments because no other funds coming into the business could be used to cover leave. Another medium-sized retail employer used to give her employees their unused sick leave at the end of the year as a time-and-a-half pay bonus; now, because paid sick leave can carry over to the next year, she does not provide the benefit as a bonus.

Three small retail and two restaurant employers felt they could no longer afford to maintain previous rates of incentive-based wage growth. One explained that as paid sick leave added another component to labor costs and each employee's net pay, he does not promote employees or provide wage raises as quickly as he otherwise would. In his words, "If you're at \$10, you're going to stay there that much longer to make up for [the additional expense]." Another employer reported that he had frozen wage growth because of the ordinance, locking in wages at their pre-ordinance level rather than stepping them up over time.

Changing Accrual Rates and Probationary Periods

Most employers in our study granted at least some of their employees some form of paid leave before the ordinance's passage, but they were required to change their policies to comply with the new regulations. Most commonly (as reported by 11 employers), they increased the rate at which sick leave or PTO accrues or shortened the probationary period before which new employees begin accruing leave.

Under the new law, employees accrue one hour of paid sick leave for every 30 hours worked. Eight interviewed employers who previously provided sick leave had a different formula for accrual (i.e., 1 hour for every 40 hours worked, etc.) or based the calculation on an alternative time unit such as calendar date rather than gradual, hourly accrual (i.e., six hours a month, eight days a year, one week a year, etc.). The employees working for these employers had a net gain in amount of paid leave they had access to per year.

According to the San Francisco ordinance, for employees hired after the implementation date, sick leave accrual begins after 90 calendar days. Nine employers in our sample had to change previous probationary policies to meet this regulation, resulting in newer employers having access to paid sick leave sooner than they would have had under prior policies. For example, accrual for paid sick leave for one large human services employer pre-implementation began after an employee had worked a total of 1,000 hours, which is significantly longer than 90 days, especially for a part-time employee.

Employer Experiences Implementing the Paid Sick Leave Ordinance

Several findings regarding employers' experiences with the paid sick leave ordinance and issues they faced in implementing the new law were identified through our interviews.

By and large, most employers were able to implement the paid sick leave ordinance with minimal to moderate effects on their overall business and their bottom line. Most respondents in our sample experienced some increased labor costs because of PSLO, either from expanding existing policy to cover all employees or increasing benefits. A few also noted additional minor costs in terms of accounting or tracking systems used to help monitor leave accrued and taken by their employees. Most employers reported they were able to absorb the cost of providing paid sick leave. Reasons for the minimal impact varied but included being a smaller employer with few employees affected by the law or adjusting only slightly the total number of paid days off (through substituting sick days for vacation days or making relatively minor adjustments to accrual rates or probationary periods).

As noted above, the paid sick leave ordinance was implemented at the same time two other employer mandates, a minimum wage increase and a health insurance mandate, were enacted. Many employers were focused on the “package” of these new requirements and what they meant for their business. Most employers were quick to say that of the three, the PSLO was the least costly to their bottom line. However, in a city where labor cost increases were piling up, the PSLO did not help. As one dry cleaning store owner said, “The paid sick leave, taken by itself, is not a big deal. But you get a triple whammy when you add that to the minimum wage increases and the health insurance.”

About half of the employers interviewed tried to offset or minimize their recent increased labor costs. Ten employers in our study reported that they passed on the costs of the PSLO to their workers through changes in other benefits or delayed wage increases to help defray costs. Because of the minimum wage requirement, employers were largely unable to significantly reduce wage rates. However, some delayed or cancelled planned wage increases for staff as a result of increased labor costs in general and the PSLO specifically. Some employers changed other benefit levels to help defray costs, such as eliminating end-of-year payouts for unused sick days or cancelling a planned extra week of vacation. Seven employers raised the prices or rates charged to their customers, but all noted that these increases were motivated by the impact of the three employer mandates and other economic conditions on their business, not just the paid sick leave ordinance. Rate increases were seen in restaurants, retail, and health care.

Among the businesses included in our study, small or medium-sized employers were more affected by the paid sick leave law than larger employers. Most medium-sized employers we interviewed had to expand benefits to a significant portion of their workforce, and their ability to both absorb the labor cost increases and to administer and track the leave was significantly affected. According to many owners, profit margins were tight, and the increased labor costs required companies to look for ways of decreasing costs in other areas of their business. Additionally, several companies lacked sophisticated payroll systems and therefore had trouble meeting the tracking requirements of the law. In our sample of businesses, small employers did not appear to be as significantly affected by the law in terms of increased labor costs because some usually provided some type of paid sick leave informally. However, some small businesses eliminated vacation or bonuses to reduce costs, and several had difficulties implementing a tracking system.

Larger employers, on the other hand, seemed better able to handle the tracking requirements of the law and to absorb the new labor costs into their business. Most had human resources departments and more formalized policies in place for significant portions of their workforce before PSLO. Many large employers had to expand their policies to additional workers, usually part-time or temporary workers. While this expansion was sometimes substantial—for example, one national retailer had to start providing paid sick

leave benefits to almost a quarter of its San Francisco workforce, all of whom worked part time—the overall increase to the business’s labor costs were small because the firm was very large.

Some industries faced more challenges with providing paid sick leave than others. In general, restaurants were more likely than other industries to respond to the increased labor costs, with many enacting some type of cost saving measure. Again, however, most restaurant owners said that these cost-cutting measures often were not related to PSLO itself but a combination of the PSLO and an increase in the minimum wage. Restaurant owners noted in particular that, unlike the federal minimum wage, San Francisco’s minimum wage did not allow for a tip allowance, or a decreased minimum wage for workers who receive tips. Paying this wage rate while staying competitive with restaurants outside the city and keeping prices “affordable” was a challenge.

Even within this industry, restaurants responded in different ways to reduce their labor costs. Some owners tightened shifts and schedules so they did not have to hire so many part-time employees. Others shifted part-time workers to full-time positions, mostly through attrition but occasionally by letting staff go and replacing them with full-time workers. Other restaurants found additional ways to cut labor needs. One local restaurant chain with facilities outside the city decided to have all its vegetables and fruit prepared and chopped in a nearby city and have the food driven to its San Francisco restaurants to reduce the amount of San Francisco–employee time preparing food. Another owner started purchasing precut pork chops and preprepared vegetables to reduce his need for “back of the house” workers.

Some restaurant owners stressed that the increased labor costs hit the medium-sized restaurants—those that require a large number of wait-staff—the hardest. As one restaurant owner said, “The fine dining places are being driven out. Now, the only way to stay in business here is to open pizzerias, sandwich shops, taquerias . . . out-the-door restaurants, with fewer than 15 staff. But these types of restaurants don’t provide as many jobs, and it cuts into our reputation as a food destination.”

Other industries also faced challenges. The health care industry employs on-call staff, many of whom work intermittently. Providing on-call staff paid sick leave is difficult, given that they are only called when needed and often are not guaranteed a certain number of hours each week or even each month. The wages of these workers, according to one health care employer, are typically higher given the nature of these positions (often at rates negotiated through a collective bargaining agreement), so adding a benefit onto this category of employee affects the employer’s bottom line.

Similarly, a nonmedical home care agency expressed concerns about its “at-will” employees. When the agency hires a caregiver, the employee agrees to take on a particular assignment, and he or she is expected to stay with that client until the client no longer requires the employee’s services. While the interviewed agencies allowed their workers to take unpaid leave before the ordinance to attend to their own or their families’ health needs, the employers were not able to guarantee caregivers their assignment upon their return. Caregivers thus risked losing their jobs when taking time off: if a client preferred a particular caregiver’s replacement, the client could switch caregivers. In addition, as employees’ hours were based on individual clients’ discretion and could be unpredictable, and as the work took place in clients’ homes, the employer faced challenges in implementing and tracking paid sick leave accrual.

Many businesses would prefer state or national employer mandates rather than a city mandate. For many employers, the fact that their competitors just over the city line were not subject to the city’s minimum wage, health insurance, or paid sick leave requirements made the cost of staying competitive

difficult. While six employers noted that they might consider relocating outside San Francisco in the future, most reported that they did not have much of an option, given that their business relied on either local residents (such as dry cleaners or pet care) or tourists (for restaurants and hotels) drawn to San Francisco.

Given these realities, most employers explained that if the government was going to pass paid sick leave mandates, it should be the state or national government. This was true regardless of the employer's personal opinion of the law. For example one small employer said, "Philosophically, [PSLO] is a good thing. I just wish it were more spread out—and that all businesses had to comply—that way it would level the playing field, so that we are not at a competitive disadvantage." Another, who did not support the law, noted, "If everyone in the state was doing it, then okay. Who cares if taxes go up? If everyone else is paying, who cares?"

One hardware company owner suggested that the city could help San Francisco employers by giving them preference in their contracting and bidding processes. "Right now, I'm competing against companies outside of San Francisco who don't have to comply with these city mandates. So, to win the city contract, you either make less or you lose the bid because these other companies have lower costs. The city should take the lead on business-friendly legislation to offer San Francisco businesses preference in bidding for city contracts. It would make a statement from the city that they're asking a tremendous amount from the businesses here, but that the city wants to help them however it can."

Larger employers did not worry as much about competitive disadvantages, since their operations and larger business decisions were not typically driven by policy changes in San Francisco. But, for different reasons, larger employers also said they would prefer a state or national law, if paid sick leave was going to be an increasingly common requirement. These respondents were primarily concerned about administering different policies for employees in different cities and, for national companies, in different states. For these larger national employers, mandates requiring nine days of paid sick leave in San Francisco, seven days in Dayton, and five days in Washington would be difficult for human resource administrators. As one company representative noted, "It is a mess to try to have specific rules for each city. We don't want a patchwork solution and want to see laws at the federal level, whether we like the laws or not. A patchwork just causes confusion on top of administrative burdens."

Few employers reported any early benefits from reduced absenteeism, lower turnover, or improved employee morale as a result of the paid sick leave ordinance. Employers noted that turnover and retention seem less relevant to a mandated benefit, since now the same sick leave benefits are available across companies. As one small business owner observed, "The policies I had in place before were there to reduce turnover and get better employees—and they did have an effect. But now, since the new ordinance, employees will have the same benefit no matter where they work. There's less of an incentive to stay and work for me."

Some employers reported that the law limits their ability to reward full-time or longer-tenure workers with higher benefits than part-time or new workers. As one small business owner said "Now my part-time employees are getting to be equal to my full-timers, those full-timers are upset that they're getting the same benefits—they feel mistreated. There needs to be some distinction for those that work full time and have been working for me for a while. But, I don't have the ability to add additional benefits to full-timers because all of my fixed costs are up."

Policymakers need to engage employers to inform the details of a paid sick leave law. Employers stressed the need for employers to be at the table early on when crafting a paid sick leave policy. Accord-

ing to many employers in our study, the development of San Francisco’s policy did not include the employer perspective on critical issues, making implementation more difficult. As one employer noted, “When I have a problem, I go to the people who are going to be affected and ask their opinion. Here is a problem where they want to find a solution, and the stakeholders who should have been tapped weren’t. No matter how you slice it, it is a cost, so business will still be against it—but HR folks and other businesses could have at least weighed in on how to get it right.” Many employers noted that, from their perspective, the process seemed to have assumed an adversarial relationship between employers and employees. Employers stressed that this is not necessarily true and that involving employers in the conversation and viewing them as partners in crafting the policy would have been a better route to finding a mutually agreeable policy.

Employers noted an important area for their input was setting the sick leave accrual rates. Many noted that San Francisco’s accrual rate of one hour of sick leave for every 30 hours worked was awkward to implement. Most human resource systems already account for benefits in increments of 20 or 40 hours, so the 30-hour accrual required additional calculations for most employers. In addition, the way the law was written, the sick leave caps at nine days a year (or five days for small businesses). But the cap is a rolling cap, so if an employee earns nine days in year one, then takes all nine days early in year two (say, in January), the employee can still accrue more sick leave time in year two and, theoretically, take more leave later in the year. The rolling cap is difficult to administer for many employers and runs counter to the way many businesses accrue and provide other benefits to their employees.

Employers also noted that a city or state should provide additional staffing and resources to the administering agency to help implement a PSLO, particularly technical assistance for employers to help them get their PSL systems up and running. Most employers, as well as city officials we spoke with, agreed that the administering agency lacked the staff and resources to meet the law’s requirements and help employers implement the policy on time. In fact, the timeline for implementation was delayed by 120 days during which employees were able to accrue paid sick leave but employers were not required to pay for any sick time used. This transition period was created to give city officials and employers extra time to make the program operational and address implementation issues. Some major considerations worked out at this time included addressing exempt employees, further defining employers’ “reasonable requests” for notice, and parameters for leave taking.

In addition to implementation, ongoing education and enforcement efforts are needed. Regulatory laws are only as good as the enforcement efforts that back them up. Yet, city officials and employers both noted the challenge of educating employers and employees about the benefit and ensuring compliance for the estimated 106,000 registered businesses in the city.² At the time of our interviews, officials were planning an employer education campaign to help tell people about the law and answer questions. As one small business owner said, “Many employers still don’t know about this law. The city sent two fliers, and most people throw those out. They need some sort of acknowledgment from employers that they’ve read the law and have implemented it.”

Enforcing PSLO is primarily driven by employer or employee complaints, which, employers and officials note, leaves the burden largely on employees to identify employers that refuse to comply with the law. In the words of one employer, “We keep passing more laws, and there’s no enforcement. For the bad employers, employees will keep working quietly and not complain if they want to keep their jobs, and there’s not an effort to go find the sweatshops in the city—the city doesn’t have enough people to enforce labor laws in those places—this law won’t be enforced either.” When violations are reported and confirmed in San

Francisco, noncompliance penalties are limited to the dollar amount of the paid sick leave withheld from the employee multiplied by three or \$250, whichever is greater. If the violation resulted in other harm to the employee, including discharge from employment, then employers may face an additional charge of \$50 for each employee harmed, accumulated for each day that the violation occurred or continued. Thinking through these implementation issues before a law goes into effect would go a long way in easing employers' challenges in complying with the new legislation and ensuring that employers implement the law as intended.

Summary

This study of employer perspectives on implementing mandated paid sick leave in San Francisco provides useful insights for policymakers, advocates, and the business community to consider as these policies are debated. According to our study, most employers were able to implement this mandate with minimal impacts on their business in the first year. However, San Francisco's experience suggests that it is critical to consider the policy environment affecting employers, such as health insurance or other mandates, when debating the addition of new labor costs.

This study also finds that not all businesses respond the same way when addressing these increased labor costs, with some affected more than others. Considering the law's effects on employers of different sizes and across different industries is critical to understanding the larger business and employment effects of a paid sick leave mandate. Further, policymakers should consider specific implementation challenges and economic effects that result when mandated paid sick leave is established locally, rather than statewide or nationally. Finally, ensuring that the business community is engaged in the design of these policies at the outset would help ensure that a paid sick leave law is implemented smoothly and that unintended consequences are avoided or minimized.

NOTES

1. In this report, paid sick leave refers to the limited number of days off an employer provides employees for an illness or ill family member. Longer leaves can also be paid in California as part of the state's Paid Family Leave Insurance program.
2. San Francisco Planning and Urban Research Association, "Ballot Analysis November 2007: A Comprehensive Guide to San Francisco's Ballot Measures," http://www.spur.org/documents/1107_ballot_analysis.shtm.

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