SUMMARY and FISCAL NOTE

Department:	Dept. Contact:	CBO Contact:
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1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to employment in Seattle; revising and clarifying minimum wage and minimum compensation requirements for certain employees performing work in Seattle; and amending Sections 14.19.035 and 14.19.040 of the Seattle Municipal Code.

Summary and Background of the Legislation:

Background
Seattle's Minimum Wage Ordinance, Seattle Municipal Code (SMC) Chapter 14.19, requires employers to pay certain employees[1] a minimum wage for work performed within city limits. Seattle was the first major city in the United States to adopt a $15 minimum wage and is now one of about 60 local jurisdictions that require a higher minimum wage than the state or federal standard.[2] Seattle's minimum wage requirements are among the highest in the nation and increase every year on January 1 to reflect the rate of inflation.[3]

The ordinance became effective on April 1, 2015, gradually increasing the minimum wage to $15.00 per hour over three to seven years with different schedules based on employer size:

- **Large employers** (more than 500 employees worldwide including franchise networks) followed an accelerated schedule with annual inflation adjustments to the minimum wage starting in 2018; and
- **Small employers** (500 or fewer employees worldwide) followed a slower schedule with annual inflation adjustments to the "minimum compensation" standard starting in 2021.

The ordinance established "minimum compensation" as a temporary standard to ease the transition to higher wages for small employers. For a ten-year period, small employers could pay a lower minimum wage by counting payments toward the employee's medical benefits and/or customer tips paid to the employee toward the minimum compensation requirement.[4]

[1] Covered employees are defined by SMC 12A.28.200.
[2] Inventory of US City and County Minimum Wage Ordinances. *UC Berkeley Labor Center*, June 27, 2024. Accessed online on July 25, 2024.
[3] The rate of inflation means 100 percent of the annual average growth rate of the bi-monthly Seattle-Tacoma-Bremerton Area Consumer Price Index for Urban Wage Earners and Clerical Workers, termed CPI-W for the 12-month period ending in August, provided that the percentage increase shall not be less than zero.
[4] The ordinance specified minimum compensation rates that increased by $1.00 every year through 2020 and small employer minimum wage rates that increased by $0.50 or $0.75 every year through 2024. For a history of the legislative and inflation-adjusted minimum wage increases since 2017, see the Office of Labor Standards Multi-Year Minimum Wage Chart; see also Ordinance 124490.

On January 1, 2021, the hourly rate for the large employer minimum wage and small employer minimum compensation converged; both entities now owe the same amount of pay per hour. Large employers meet this requirement through wages (i.e., hourly pay, piece-rate pay, non-discretionary performance bonuses); small employers pay a minimum compensation.

The 2024 minimum wage is $19.97 per hour:

- **Large employers** owe a minimum wage of $19.97 per hour, paid solely through wages; and
- **Small employers** owe a minimum compensation of $19.97 per hour, payable through wages of at least $17.25 per hour and the applicable credit for employer payments toward medical benefits and/or customer tips (e.g., $2.72 per hour).

On January 1, 2025, the minimum compensation standard will expire; small employers will no longer be able to pay a lower minimum wage by counting tips and benefit payments toward a minimum compensation standard. Employers regardless of size will pay the same minimum wage (as adjusted for inflation) solely through wages.

Due to higher than usual inflation resulting from the COVID-19 pandemic, the gap between the large and small employer minimum wages grew farther apart in recent years, making the transition to a single minimum wage a more significant change than anticipated. As a result, some small employers, particularly those with tipped employees such as restaurants and other food service establishments, may need to increase wages by a substantial amount in 2025. Other small employers may need to increase wages by a lower amount, potentially limited to the annual inflationary adjustment.

The Office of Labor Standards (OLS) implements and enforces these requirements. OLS announces the upcoming year's minimum wage increase in the fall of each year and typically mails notices with this information to each employer operating in the city.

Summary

This legislation would amend the Minimum Wage Ordinance, SMC 14.19, to permanently establish minimum compensation as the pay standard for small employers. The legislation is intended to provide relief for small employers, mitigating the impact of increased labor costs and unexpectedly high inflation, while still guaranteeing a minimum earnings standard for employees.

The legislation would make the following changes:

- Remove language ending minimum compensation on January 1, 2025;
- Add language requiring an annual increase to the small employer minimum wage to reflect the rate of inflation beginning on January 1, 2025; and
- Make a technical change clarifying that small employers may apply piece-rate payments, commissions, and bonuses toward the total wages earned in a work week in the same manner as large employers. This language appears to have been inadvertently omitted from the original ordinance.

As a result of these changes:

- Minimum compensation would become the permanent pay standard for small employers operating in the city;
- Minimum compensation and the large employer minimum wage would be the same amount, as adjusted for inflation on January 1 of each year; and
- The small employer minimum wage would be adjusted for inflation on January 1 of each year.

The legislation would also include an uncodified section requesting the Office of Economic Development (OED), in consultation with the Office of Labor Standards, to conduct outreach and analysis to develop recommendations for what, if any, changes should be made to the Minimum Wage Ordinance and report back to the Government, Accountability, and Economic Development Committee, or successor committee, no later than July 1, 2026.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? ☐ **Yes** ☒ **No**

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation have financial impacts to the City? ☒ **Yes** ☐ **No**

Amending the Minimum Wage Ordinance could have financial impacts for OLS and OED.

OLS could incur additional costs to revise outreach materials (e.g., webpages, labor standards posters, fact sheets, guidance documents); conduct new trainings for employers; employees, and partner organizations; and respond to an increased number of inquiries from businesses and workers.

OED could incur additional costs to fulfill Council's request to conduct outreach and analysis to develop recommendations for any changes to the Minimum Wage Ordinance.

Central Staff is prepared to work with OLS, OED, and the City Budget Office to develop estimates of these costs, including the impact of additional work on existing programs and priorities, whether the costs are short-term or long-term, and whether the costs could be absorbed within existing budget authority.

To better understand financial implications, Central Staff will request information on the status of outreach expenditures to determine the amount of funds that have already been spent or obligated under contract(s) and the extent to which OLS and/or OED could reshape outreach efforts within their existing budget authority to address amended requirements.

Financial impacts are not yet known; Central Staff is prepared to work with OLS, OED, and CBO to develop estimates on potential costs to complete the below chart.

Expenditure Change ($); General Fund	2024	2025 est.	2026 est.	2027 est.	2028 est.
Expenditure Change ($); Other Funds	**2024**	**2025 est.**	**2026 est.**	**2027 est.**	**2028 est.**

Revenue Change ($); General Fund	2024	2025 est.	2026 est.	2027 est.	2028 est.
Revenue Change ($); Other Funds	**2024**	**2025 est.**	**2026 est.**	**2027 est.**	**2028 est.**

Number of Positions	2024	2025 est.	2026 est.	2027 est.	2028 est.
Total FTE Change	**2024**	**2025 est.**	**2026 est.**	**2027 est.**	**2028 est.**

3.d. Other Impacts

Does the legislation have other financial impacts to The City of Seattle, including direct or indirect, one-time or ongoing costs, that are not included in Sections 3.a through 3.c? If so, please describe these financial impacts.
Central Staff is prepared to work with OLS, OED, and CBO to understand other financial impacts to the City.

If the legislation has costs, but they can be absorbed within existing operations, please describe how those costs can be absorbed. The description should clearly describe if the absorbed costs are achievable because the department had excess resources within their existing budget or if by absorbing these costs the department is deprioritizing other work that would have used these resources.
Central Staff is prepared to work with OLS, OED, and CBO to understand if/how any additional costs could be absorbed within existing operations.

Please describe any financial costs or other impacts of *not* implementing the legislation.
If this legislation is not implemented, OLS would continue to administer the current requirements of the Minimum Wage Ordinance within the office's existing operations. Notably, this legislation proposes to amend such requirements to provide relief for small employers and prevent financial hardship. More information is necessary for Central Staff to forecast the implications of *not* implementing the legislation on these entities.

4. OTHER IMPLICATIONS

a. Please describe how this legislation may affect any departments besides the originating department.

This legislation is Council-generated. Impacts on other departments include: OLS's implementation of amendments; the City Attorney's Office responses to legal referrals from OLS on such amendments; the Hearing Examiner's responses to requests for hearings on appeal from respondents and aggrieved parties; and OED's outreach and analysis to develop recommendations for changes to minimum wage requirements.

b. Does this legislation affect a piece of property? If yes, please attach a map and explain any impacts on the property. Please attach any Environmental Impact Statements, Determinations of Non-Significance, or other reports generated for this property.

No

c. Please describe any perceived implication for the principles of the Race and Social Justice Initiative.

i. How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response please consider impacts within City government (employees, internal programs) as well as in the broader community.

The City's Race and Social Justice Initiative is the City's commitment to social justice and ending racism. The goal of RSJI is to end institutional racism within City government with a long-term goal of changing the underlying systems that create race-based disparities in our community and to achieve racial equity.

This legislation intends to mitigate the impacts of minimum wage increases on small employers, particularly those with tipped employees such as restaurants and other food-service establishments. In Washington state, about 22 percent of businesses with less than 500 employees are owned by women and 19 percent are owned by people of color.[5] The percentages of restaurants in the state (without regard to number of employees) owned by women and people of color are higher: 30 percent of restaurants are majority-owned (54 percent are partially owned) by women and 38 percent are owned by people of color.[6] Women comprise about 50 percent of the state population and people of color (excluding white, non-Hispanic or Latinx individuals) comprise about 36 percent of the state population.[7]

This legislation also intends to stabilize jobs and benefits of employees working for small employers. Locally and nationally, there are persistent disparities in individual and household median income based on race, ethnicity, and gender.[8] Women and

[5] 2024 Firms in Focus: Findings from the 2023 Small Business Credit Survey, Chartbook on Washington Employer Firms. *Federal Reserve Banks*, May 31, 2024. Accessed online on July 25, 2024.
[6] Restaurant Owner Demographics. *National Restaurant Association*, March 2022. Accessed online on July 25, 2024.
[7] Quick Facts Washington; United States (2023 Population Estimates). US Census Bureau. Accessed online on July 25, 2024.
[8] Seattle median household income hits $115,000 census data shows. *The Seattle Times*, September 14, 2023. Accessed online on July 25, 2024; Household Income in King County as of 2020. King County Office of Economic and Financial Analysis, 2020.

people of color face unique barriers to economic security and disproportionately work in low-wage jobs with insecure working conditions.[9]

More information is necessary for Central Staff to assess the racial equity impacts of the Minimum Wage Ordinance and forecast potential implications of the proposed amendments.

ii. Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation.
N/A

iii. What is the Language Access Plan for any communications to the public?
OLS is required to create and distribute a model notice of worker rights in English, Spanish, and other languages. Employers are required to post the notice in English and the primary language(s) of the workforce in a conspicuous and accessible place at any employee workplace or job site.

OLS could potentially use existing outreach funds and/or contracts with community and business organizations to provide culturally competent and language-specific outreach on revised minimum wage requirements to low-income workers and small businesses. Central Staff is prepared to work with OLS to determine if existing outreach funds or contracts could be used for such purposes.

d. Climate Change Implications

i. Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response.
N/A

ii. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.
N/A

Accessed online on July 25, 2024; Labor Force Characteristics by Race and Ethnicity, 2022.*US Bureau of Labor Statistics*, November 2023. Accessed online on July 25, 2024.

[9] Jessica Shakesprere, Jessica; Katz, Batia; Loprest, Pamela, Racial Equity and Job Quality: Causes Behind Racial Disparities and Possibilities to Address Them. *Urban Institute*, September 2021. Accessed online on July 11, 2024.

e. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)? What mechanisms will be used to measure progress towards meeting those goals?
OLS tracks and posts information on outreach and enforcement efforts on the office's on-line, interactive dashboard. OLS could use the metrics posted for implementation of the Minimum Wage Ordinance (e.g., number of inquiries, number of investigations, and amounts of remedies) to support evaluation of the proposed legislation.

5. CHECKLIST

Please click the appropriate box if any of these questions apply to this legislation.

☐ **Is a public hearing required?**

☐ **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required?**

☐ **If this legislation changes spending and/or revenues for a fund, have you reviewed the relevant fund policies and determined that this legislation complies?**

☐ **Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization?**
If yes, please review requirements in Resolution 31203 for applicability and complete and attach "Additional risk analysis and fiscal analysis for non-utility partner projects" form.

6. ATTACHMENTS

List Summary Attachments (if any):