

Memorandum

To: Bob Wingenroth, City Manager

From: Mark Schott, HR Director

Date: January 5, 2017

Re: Executive Summary: Impacts of AZ Proposition 206

Subject Matter:

The adoption of Arizona Ballot Proposition 206 increases the state's current hourly minimum wage of \$8.05 per hour in a four step process to \$12.00 per hour in 2020. The rate thereafter increases in each subsequent year by the cost of living. Additionally, beginning July 1, 2017, employers are required to provide employees a minimum of 1 hour of paid sick leave per 30 hours worked. This entire act is now known as "The Fair Wages and Healthy Families Act" (FWHFA).

Impacts:

The established adjustments of the minimum wage under the FWHFA are spread over calendar years in the following manner:

- 2017 - Increase to \$10.00
- 2018 - Increase to \$10.50
- 2019 - Increase to \$11.00
- 2020 - Increase to \$12.00

The July 1, 2017 requirements for sick leave accrual of one (1) hour per 30 hours worked under the FWHFA will have the following parameters:

- Accrual of sick leave hours may cap at 40 hours;
- Any balance (up to 40 hours) will roll over each calendar year, but still retain at a cap of 40 hours;
- At separation of employment, employees receiving a sick leave benefit under the FWHFA are **not entitled** to be paid out for unused accrued leave.
- Employees who return to work within 9 months after separation from employment will have their prior balance of unused accrued sick leave reinstated.

Conclusions:

Minimum Wage Increase: The City of Surprise has no current positions, either full time or part time, which have an hourly wage of less than \$10.00 per hour. The lowest hourly wage currently included in city pay plans is contained within the "Seasonal Pay Plan" at a rate of \$10.35. The City will not be impacted by the 2017 increase to \$10.00 per hour.

Sick Leave Accrual: A provision provided within Proposition 206 allowed for; *“Any employer with a paid leave policy, such as a paid time off policy, who makes available an amount of paid leave sufficient to meet the accrual requirements of this section that may be used for the same purposes and under the same conditions as earned paid sick time under this section is not required to provide additional paid sick time.”* All City “full-time” employees that accrue Paid Time Off (PTO) as a benefit already exceed the minimum thresholds of required leave pursuant to the FWHFA mandate. Therefore no modifications to our current policies will be required to comply with the FWHFA for employees in these categories.

“Part-time” employees, including seasonal employees, that do not currently receive any type of “leave benefit” will be eligible under the FWHFA to receive the one (1) hour of accrued sick leave for every 30 hours worked. The City currently has approximately 16 part-time “regular” employees. Part-time “seasonal” employees can vary greatly in peak periods, such as spring training or summer recreation in CRS. At times, part-time seasonal employees being compensated can reach 150 to 200. It should be noted that after these peak periods many of the seasonal employees are no longer scheduled for work hours and if separated, would not receive any compensation for unused accrued leave.

Recommendations:

Minimum Wage: As described previously, the City will not be required to take any action in 2017 to comply with the FWHFA’s minimum wage increase to \$10.00 per hour. The Human Resources Department will continue to proactively evaluate all pay plans within the organization in advance of each calendar year, to identify any impact which may occur as a result of the FWHFA’s scheduled minimum wage increase requirement for that year. All changes made to pay plans, such as adjustments due to cost of living or market, will be evaluated in this process as well to identify impacts related to the minimum wage adjustments.

Leave Accrual: In early 2017 the Human Resources Department will present the City Manager with proposed policy amendments to comply with the requirements of the FWHFA. The development of a “leave accrual” for part-time employees that can be administered from a programming perspective within our Munis Payroll System is being explored to create a leave accrual program, which will meet the requirements of the FWHFA. Policy development will also occur to ensure compliance while establishing parameters and fiscal responsibility. Existing parameters in the act such as a “cap” of 40 hours and “ineligibility for cash out” at the time of separation may mitigate unfunded liabilities when establishing a separate part-time leave accrual system.