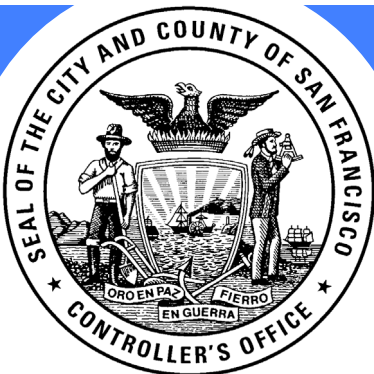


COVID-Related Hazard Pay: Economic Impact Report



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
Office of Economic Analysis

Item #210181

March 24, 2021

- The proposed emergency legislation requires certain private employers to temporarily increase the pay of most of their employees by \$5 per hour, for a 60-day period, beginning on the effective date of the ordinance.
- Affected employers include grocery stores, drug stores, and their janitorial contractors that have at least 500 employees worldwide, and at least 20 in San Francisco.
- Employees earning less than \$30/hour would receive a \$5/hour increase; those earning between \$30-\$35 would have their pay raised to \$35/hour.
- Employers that had already provided COVID-related hazard pay increases may use those prior payments to offset the additional pay requirements of this legislation.
- The Board of Supervisors unanimously and finally approved the legislation on March 19, 2021. Nevertheless, after determining the matter could have a material impact on the city's economy, the Office of Economic Analysis (OEA) is required to issue this report within 30 days of its introduction, even if the Board has already acted on the matter.

Number of Affected Employees

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- Grocery store and drug store workers are two groups of essential workers, whose workplaces have remained open during the COVID-19 pandemic.
- From the County Business Patterns data released by the Census Bureau, the OEA have estimated that approximately 3,900 people work at San Francisco drug stores, and approximately 9,175 people work at San Francisco grocery stores, that have more than 20 employees in the city*.
- The OEA thus estimates that roughly 11,300 employees in San Francisco stand to benefit from the proposed hazard pay.
- Based on estimates made by the Controller's Office, these employees represent approximately 43% of all workers deemed essential in the original shelter-in-place order issued by the City in March 2020.

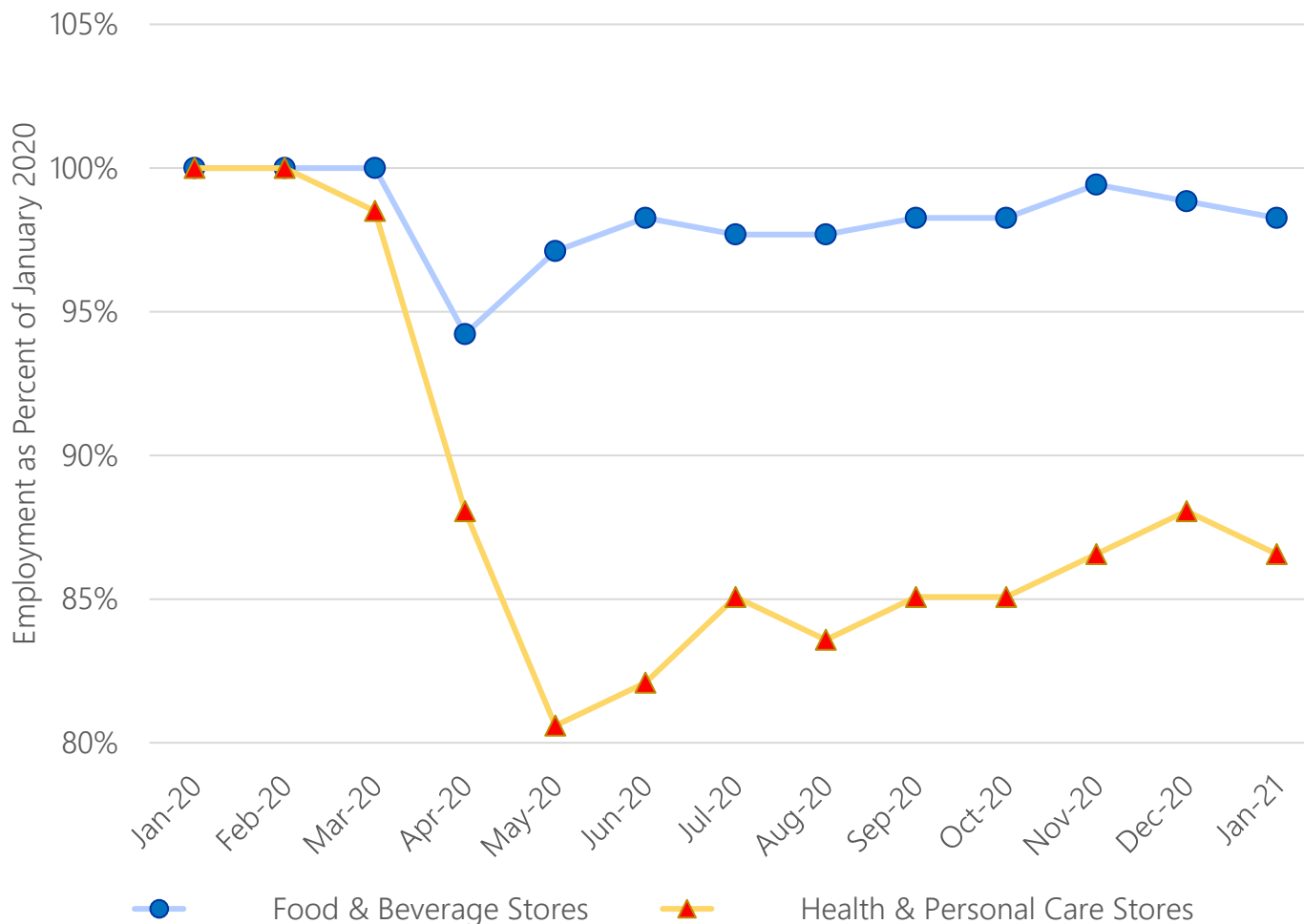
* See the Appendix for details on data sources and calculations used in this report.

Earnings and Residence of Affected Workers

- According to data from the Bureau of Labor Statistics, grocery store employees in San Francisco employees are among the lowest-paid essential workers, with an average annual salary of \$34,685 in 2019. Pharmacies and drug stores had a higher average salary, of \$58,682.
- Approximately 83% of workers at San Francisco grocery and drug stores earn less than \$30/hour and would be entitled to the full \$5/hour hazard pay during the effective period. Another 6% are estimated to earn \$30-\$35/hour and would receive hazard pay until their total wage reached \$35/hour.
- On average, we estimate the average worker will receive a hazard pay bonus of \$4.19 per hour, equivalent to an 18% pay increase for 60 days.
- Census data from the American Communities Survey (ACS) indicates these employees work an average of 36.6 hours per week: over the 60-day emergency period, they stand to earn an average of \$1,314 in hazard pay.
- ACS data also reveals that about 67% of affected workers live in San Francisco, and the remaining 33% live elsewhere.

Pandemic Employment Trends

Monthly Employment in Food & Beverage Stores, and Health & Personal Care Stores, as % of January 2020, San Francisco Metro Division



Like most other local industries, grocery and drug stores experienced job losses early in the pandemic, and some recovery since then.

As of January 2021, employment at Food & Beverage stores in the San Francisco Metro Division had reached 98% of pre-pandemic levels, with 300 fewer jobs than a year earlier.

Health & Personal Care stores, which include drug stores, have been harder hit, with employment at only 87% of pre-pandemic levels, and 900 fewer jobs than in January 2020.

- By raising the incomes of affected employees, and the costs of their employees, the legislation would create both benefits and costs for the city's economy.
- The increase in labor costs would reduce business income and spending on other supplies, and possibly lead to reduced employment and higher consumer prices. These costs would generate negative multiplier effects on other local industries and sectors of the local economy.
- On the other hand, increased worker pay would lead to higher consumer spending in the city, generating positive multiplier effects on other industries and sectors.
- The net economic impact of the legislation is determined by the relative size of these positive and negative effects. The OEA uses the REMI model to estimate the multiplier effects of changes to the local economy.

- In terms of the cost to local businesses, the estimated 11,284 affected workers receiving an average of \$1,317 in hazard pay would lead to an increase in labor costs for affected retailers of \$14.6 million.
- Since 67% of the affected workers live in San Francisco, $67\% \times \$14.6$ million or \$10.0 million of the income would be spent in the city. Income received by residents of other cities is assumed to create no economic benefits for San Francisco.
- According to the REMI model, the combination of a \$14.6 million cost increase to retailers and a \$10 million increase in consumer spending would lead to a reduction in city GDP of \$26 million, and a decline in employment of 164 jobs, compared to a baseline scenario in which the legislation was not adopted.
- Overall, averaged across the city's entire retail sector and all of 2021, the hazard pay represents a 0.13% increase to the cost of production, and will lead to a 0.12% increase in overall retail prices. This suggests most of the cost increase will be passed on to local consumers.

- In the context of a city economy with approximately 960,000 jobs and a GDP of \$190 billion, the projected GDP and employment losses represent a small citywide economic loss of approximately 0.02%.
- This negative impact is a consequence of both the leakage of the income increase due to workers living outside of the city, as well as the higher multiplier effect of production costs increases compared to consumer spending.
- It is worth noting that while the legislation is projected to slightly slow recovery in retail trade employment, retailers are expected to react in other ways as well. Specifically, most of the cost increase is projected to be passed on to consumers.
- Decision-makers may wish to consider the distributional impact of having local consumers, including low-income households, pay for wage mandates that lead to higher labor costs for businesses.

Appendix

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			Notes
	Average pay increase	\$4.19	Calculated from 2015-19 ACS PUMS data (source: ipums.org), and 2020 BLS OES wage percentile statistics
x	Average hours / week	36.6	Calculated from 2015-19 ACS PUMS data (source: ipums.org)
x	Number of weeks (60 days/7)	8.6	
	Average increase/worker	\$1,317	
x	Number of affected workers	11,284	Calculated from County Business Patterns
	Total labor cost increase (\$M)	\$14.9	
x	% of workers living in SF	67%	Calculated from 2015-19 ACS PUMS data (source: ipums.org)
	Increase in SF household income	\$10.0	

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