An Investigation into the Economic Impact of Requiring Paid Sick Leave in Orange County

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Key Findings

- *Estimated cost to businesses of between $69.2 million and $82.3 million each year*
- *Smaller businesses are more likely not to currently offer paid sick leave and will bear more of the impact*
- *40% of affected employees will lose other forms of compensation*
- *54% of affected business will incur reduced profits*

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Executive Summary

In recent years, some cities have approved mandatory paid sick leave programs (San Francisco and Seattle) while others have rejected them (Denver and Philadelphia). Currently, there is a proposal that may be on the November ballot that would require all businesses within Orange County with 15 or more employees to provide paid sick leave.

Though on the surface it's hard to oppose paid sick leave, simple economics informs us that there is no free lunch; there will always be costs as well as benefits. This study begins with an examination of the details of the proposal for Orange County followed by considering lessons learned from the experiences of other cities before evaluating the potential impact on Orange County.

The proposal applies to all employees in the private sector that work at least 160 hours a year. Unlike elsewhere, local government employees are not covered by the proposal. Businesses with fewer than 15 employees would be required to provide unpaid sick leave while those with more than 15 employees must provide paid sick leave. All employees, whether full time, part time or temporary, will be able to earn one hour of sick leave for every 37 hours of work, up to 56 hours of paid sick leave (businesses could choose to provide more). Since most sick leave programs currently only cover full-time employees, many firms who already offer paid sick leave will have to modify their policy. There is some complexity when it comes to determining who's an employee and how to determine whether a business has 15 or more employees. Employees include those working full time, part time, temps, and those provided by staffing agencies. Any business that has had at least 15 employees for at least 20 weeks in the current or previous calendar year must provide paid sick leave (note: these are not full-time equivalents, but each worker counts as one employee). Also, sick leave is earned by work done within the county, not work performed elsewhere.

A study of the San Francisco program, completed by a group supporting mandated paid sick leave (Institute for Women's Policy Research or IWPR), provides some insight into potential consequences of such a program. While their study reported the impact on all firms, even those that did not have to make any changes in response to the new requirement, more revealing information comes about when one focuses on those businesses directly impacted by the mandate (i.e., those that had to begin to offer paid sick leave). Once one excludes firms that did not have to make any changes to their sick leave policy, 65% of businesses reported lower profits and 43% reported reducing other forms of employee compensation as a result of being required to provide paid sick leave. When it came to understanding and implementing the new requirement, though nearly two-thirds of companies didn't need to make any changes, only a little more than half reported that the requirement was understandable and not too difficult to implement.

A recent study by IWPR underestimates the cost and overestimates the benefits of mandated paid sick leave in Orange County. One problem is that it assumes that the average employee will only use about 2.5 days of paid sick leave per year, while data from the Bureau of Labor Statistics indicates that 4 days is more likely. Also, it assumes that employee turnover will be reduced significantly, making it profitable to require firms to provide paid sick leave. Upon closer examination, it's doubtful that employers affected by the mandate will experience a significant reduction in employee turnover. Also, the majority of "community savings" are expected to arise from fewer visits to the emergency room; however, this is based on a study by IWPR which actually does not show evidence that paid sick leave reduces ER visits. Also, there is evidence from the IWPR study of the San Francisco program that "presenteeism" – the act of attending work while sick, is not significantly affected by having access to paid sick leave, thus calling into question much of the benefits cited.

Using the results of the IWPR study of San Francisco and applying them to Orange County, 54% of firms affected by the mandate are likely to see reduced profits while 40% of employees will experience reductions in other forms of compensation. In addition, the cost to businesses in terms of being required to provide paid sick leave is estimated to be between $69.2 million and $82.3 million per year, with a large portion of the costs borne by small businesses.

Introduction

Several cities around the country have considered requiring employers to provide paid sick leave for all of their employees. On the surface, it sounds great. Who can be against providing paid sick leave? Can't big business afford to pay workers when they're sick? Some cities have approved a mandatory paid sick leave proposal (for example, Seattle), others have already implemented one (San Francisco and Washington, D.C.), while others rejected it (Denver and Philadelphia; though Philadelphia ended up approving a very limited version). Proponents have now come to Orange County, Florida, to place a proposal before voters in November 2012. Organizations in favor the proposal, led by the Institute for Women's Policy Research (IWPR), state that businesses will actually increase their profits when required to provide paid sick leave while opponents cite studies by the National Federation of Independent Businesses (NFIB) which show significant job losses and reduced profits resulting from such proposals.

The issue isn't whether paid sick leave is good or not. There are a lot of fringe benefits that are desirable, but all of them have costs. When firms consider hiring employees or when potential employees are considering a job at a particular company, they consider the whole compensation package. Currently, businesses have the choice to provide paid sick leave as part of their benefits package. The issue is whether to require businesses to provide a particular benefit (paid sick leave). Also, it wouldn't apply only to large corporations, most of which provide some form of paid sick leave, but to all businesses with 15 or more employees (more on that later).

So what's wrong with requiring paid sick leave? Nothing is free and requiring paid sick leave imposes a cost when companies hire and employ workers. One doesn't need training in economics to recognize that if something becomes more costly, fewer people are likely to acquire it. In this case, if it becomes more expensive to hire workers, companies will either hire fewer workers or they will seek to reduce other costs (other forms of compensation). Is this political rhetoric? Economists in general recognize this. For example, Lawrence Summers, former Secretary of Treasury under President Clinton and Director of the National Economic Council for President Obama, concluded that mandated leave programs are likely to lead to lower wages (compensation) and less employment[1]. As stated in the title of his article, this is simple economics. In an IWPR study of a proposed mandatory sick leave program in Massachusetts, it is stated that "By definition, employers pay wages (compensation) that are equal to each worker's productivity, or the value they produce for the employer."[2] Given that, if the cost of the compensation is increased by requiring paid sick leave, either other forms of compensation must be reduced or fewer workers will be employed (since compensation will now exceed productivity). The question is, what are the trade-offs of requiring paid sick leave? In other words, how much will other forms of compensation be reduced, hours cut back, or profits reduced?

State of the Local Job Market

Orange County is still trying to recover from the depths of the Great Recession. Between December 2007 and December 2009, private-sector employment declined by nearly 8%. As most know, the recovery has been slow as employment has risen by 3.8%, leaving the county with 4.3% fewer jobs than prior to the recession. At its current pace, Orange County won't regain all of the jobs lost until at least 2014.

Size of Firms Currently Offering Paid Sick Leave

Which firms tend to already offer paid sick leave?[3] It shouldn't be a surprise to learn that large corporations are much more likely to have paid sick leave plans, led by 82% of firms with 500 or more employees, 66% of firms with between 100 and 500 employees, 55% of those between 50 and 100, and 50% of firms with fewer than 50 employees. Thus, most of the firms impacted by mandated paid sick leave will be small businesses.

Examining the Details of the Proposal

Before we get into the likely trade-offs involved, let's look at the proposal in more detail.[4] While many companies offer fringe benefits to full-time employees, this proposal applies to all employees, whether full time, part time, or temp workers. Specifically, it applies to any employee who works at least 160 hours a year working for any company in the privates sector. I've spoken with some small business owners who already

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[1] Some Simple Economics of Mandated Benefits, AEA Papers and Proceedings, May 1989, http://www3.amherst.edu/~jwreyes/econ77reading/Summers.pdf

[2] Valuing Good Health in Massachusetts: The Costs and Benefits of Paid Sick Leave, page 8, http://www.iwpr.org/publications/pubs/valuing-good-health-in-massachusetts-the-costs-and-benefits-of-paid-sick-days-2

[3] Selected Paid Leave Access, March 2012, http://www.bls.gov/news.release/ebs2.t06.htm

[4] Petition to Place Orange County Ordinance for Earned Sick Time for Employees of Businesses in Orange County on Ballot

provide a form of paid sick leave for their full-time employees, but are concerned that they may be required to also provide paid sick leave for part-time workers. Though 75% of full-time employees in the private sector currently have access to paid sick leave, only 23% of part-timers currently receive paid sick leave.[5] Thus, many companies that already provide paid sick leave are likely to have to modify their policies to cover those working part time and any temp workers they employ. It should also be noted that all businesses in the private sector are included, whether for-profit or not-for-profit.

Government is exempt

For some reason, government is exempt from the proposed requirement (federal, state, county, and municipalities within Orange County; see section 2b). Many, but not all, government employees already receive paid sick leave, but the same can be said of many private businesses. It's hard to come up with a consistent reason why there should be a special exemption. When Denver considered a similar proposal in 2011, local government employees were covered by the proposal.[6] However, that seems to have contributed to its defeat, so perhaps that's why it's not part of the proposal for Orange County. If it is perceived that governments are already in compliance, why not let them show it just like businesses in the private sector? If it's too much of a burden for the government, that same reasoning would also seem to apply to the private sector. An interesting situation arises when one consider work-study students. Under the proposal, students that work for the University of Central Florida (a state school) are exempt from the proposal while those that work for Rollins College (a private school) are covered by the proposal (assuming other requirements are met).

Under what circumstances can an employee take paid sick leave?

It's not limited to caring for the person or immediate family, but extended family as well (grandchildren, grandparents, siblings, in-laws, a designated person, …). Though this may be appropriate in some cases, it seems to be a stretch to require companies to provide paid sick leave for those taking care of their brother-in-law or others not in their immediate family (see section 2c6).

Mandated unpaid sick leave?

Though companies with fewer than 15 workers are not required to provide paid sick leave, they are subject to restrictions on retaliating against employees who take sick leave up to 56 hours per year (section 2g). Thus, those companies that are not required to provide paid sick leave are still required to provide unpaid sick leave (also implied by the ballot summary and section 3a). Though not directly stated, it appears that employees of companies with fewer than 15 employees earn unpaid sick leave in a similar manner to those earning paid sick leave working at companies with 15 or more employees. Given this requirement, it would seem that these businesses may be required to show how they are implementing and managing unpaid sick leave programs.

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[5] Selected Paid Leave Benefits, March 2012, http://www.bls.gov/news.release/ebs2.t06.htm

[6] Denver Voters Reject Initiative 300 Mandatory Sick Leave Measure, http://www.denverpost.com/commented/ci_19243207

What's a small business?

Small businesses are exempt from being required to provide paid sick leave. What's a small business (see 2i)? In this case, it's a company with fewer than 15 employees. However, it gets a little complicated. Employees include those provided by temp or staffing agencies. What if the number of employees fluctuates such that sometimes it's less than 15 while other times it's more than 15? If the company had at least 15 employees (full time, part time, or temps) for at least 20 weeks in either the current or prior year, it needs to provide mandatory paid sick leave. Even if it does not have to provide paid sick leave, a small business still needs to provide unpaid sick leave of up to 56 hours a year according to sections 3a and 2g.

Some Potential Issues with Implementation

As with any proposal, there may be some unintended consequences. Since San Francisco was the first city to approve such a policy, we can consider issues that arose there.[7]

Lessons from San Francisco: Clarifying some issues

The city of San Francisco has developed a FAQ page designed to clarify many issues with its program. For example, what about people who participate in conferences or conventions or make deliveries in the city? In San Francisco, they're covered by the paid sick leave policy if they conduct 56 hours or more of business in San Francisco. A similar interpretation can be consistent with the proposal for Orange County (as long as other criteria are met). Similarly, those who live in San Francisco and work from home (telecommuters) are covered, regardless of the location of their business. On the flip side, those who primarily work in San Francisco do not accumulate paid sick leave for hours worked outside the city limits. That would seem to be consistent with the proposal for Orange County; so work undertaken within the county earns paid sick leave, but work done outside the county does not count. Thus, companies and employees must keep track of where the work is being done when determining how much paid sick leave has been earned. In the case of Orange County, employers and/or employees will have to maintain records indicating what work is being done in Orange County as opposed to surrounding counties or elsewhere. One can imagine the complexities this may bring up.

What if a company has some employees in the county and some outside the county? In the case of San Francisco, all employees count when determining what's a small business. Thus even though those working outside the county would not earn paid sick leave, they may still count as employees when identifying whether a company has enough employees to be required to provide paid sick leave. What if a business has different locations? From San Francisco's experience, we learn that all the employees are grouped together when determining the number of employees working for the company. Sounds confusing? Clearly it will take some

[7] Paid Sick Leave Ordinance, http://sfgsa.org/index.aspx?page=419

time for companies to understand the nuances of such a policy. As discussed later, a study by the Institute of Women's Policy Research indicates that only about half of companies in San Francisco think that they understand the policy.[8]

Who pays for coverage of temp workers?

As mentioned earlier, temp workers count when determining whether a company is required to provide paid sick leave and they are also eligible to receive paid sick leave. However, given San Francisco's experience, it's not clear who provides the paid sick leave – the company or the temp agency? In the case of San Francisco, the company and the temp agency get together and decide who provides the sick leave. In the event that a temp worker works for several companies and does not earn paid sick time at any particular company, but would have if all the hours were at one company, the temp agency is responsible for providing the sick leave.

What can Orange County learn from San Francisco? Implementation of a mandated paid leave program is more complicated than first thought. Both businesses and employees are likely to have to keep track of where work is being done when determining how much sick leave is being earned.

Potential Consequences of Mandatory Paid Sick Leave

This is the place where one side is supposed to say there will be little, if any, costs; perhaps even stating that businesses will be better off by being required to provide paid sick leave for all their employees. The other side is supposed to state that it will lead to a depression, wiping out businesses in Orange County. Rather than resort to rhetoric and hyperbole, let's take a careful look at what's likely to take place and try to learn from the experience of others. Most of the studies conducted that support mandated paid sick leave have been conducted by the Institute for Women's Policy Research (IWPR) while many of the studies that focus on the harmful effects of mandated paid sick leave have been conducted by the National Federation of Independent Businesses (NFIB).

IWPR Study of San Francisco's Program

Overview

Given the newness of mandating paid sick leave at the local level (cities, etc.), there have been few studies of the impact of requiring paid sick leave in other cities. One that has been widely quoted as providing support for mandated paid sick leave was completed by the Institute for Women's Policy Research, a group that supports

[8] San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees, http://www.iwpr.org/publications/pubs/San-Fran-PSD

mandatory paid sick leave[9] ("San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees"). Their basic conclusions include that it provided substantial benefits with few negative consequences. However, when one looks at the details, a different perspective arises. The basis for their analysis was two surveys, one of employers and one of employees. As with any study, one should be careful in accepting the results at face value. The headlines indicate that only a small portion of companies were adversely affected and a majority supported paid sick leave (in addition to the benefits achieved by the employees). However, their results show that 51% of low-wage workers reported adverse consequences including such things as fewer hours worked or layoffs, less pay or reductions in other benefits, and more work. High rates of adverse consequences were also reported for companies in leisure and hospitality (38%), companies with 10-24 employees (41%), and part time, temp, and seasonal workers (about 35% for each). The industry most affected by the new requirement was accommodation and food services followed by construction. An unreported finding of the study was that there was little effect on "presenteeism" due to mandating paid sick leave (presenteeism refers to the act of attending work while sick). According to their survey results at the end of the appendix, only 3.3% of companies reported a reduction in presenteeism, but 3.4% reported an increase in presenteeism (an overwhelming number reported no change). Thus, the study by IWPR suggests that one of the main benefits of mandating paid sick leave didn't take place in the first city in which it was implemented.

Gauging the impact on firms affected

Though they put a positive spin on the survey results, their reported findings are somewhat misleading since, according to the study, nearly two-thirds of companies reported that they didn't have to make any changes in response to the new requirement. When considering the impact of mandatory paid sick leave, it would seem to make sense to consider firms affected by the new policy, not those who are already in compliance and thus unaffected. For example, when the study reports that two-thirds of companies favor the policy, this should be interpreted along with the fact that two-thirds of the companies did not have to make any changes in response to the new requirement. What about the companies that had to make changes? Let's reinterpret the results of the study by considering only those affected by the new requirement (note: this interpretation makes use of the data collected by the IWPR; see appendix for further details).

Impact on profits and other forms of compensation

The study states that only 14% of companies reported lower profits as a result of the new mandate. However, given that almost two-thirds of companies were already in compliance and did not make any changes, it would be hard for their profits to be affected. When one considers only the firms impacted by the new policy, among those reporting a direct response (i.e., excluding those that said "don't know"), 65% of companies reported

[9] San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees, IWPR, http://www.iwpr.org/publications/pubs/San-Fran-PSD

lower profits, including 92% of firms with fewer than 10 employees. Similarly, 43% of the companies affected reported that they reduced other forms of compensation as a result of implementing paid sick leave. Once again, a higher portion of smaller companies reported that they reduced compensation than large companies. Thus, firms that had to make changes in order to satisfy the new mandate tended to experience lower profits and a large percentage attempted to contain costs by curtailing other forms of compensation, with smaller businesses impacted the most. This is what the 'simple economics of mandated benefits' predicts (recall discussion earlier).[10]

Understanding the law and administering the program

When it comes to understanding the requirements of the new program, 52% of all firms indicated that it was not difficult or not too difficult while 35% reported that it was somewhat or very difficult and the remaining 13% didn't know (if you don't know whether something is understandable, you probably don't understand it!). The percent of those who indicated they understood the program declined to 44% for the industry most affected (accommodation and food). In terms of administering the program, 54% of all firms found it to be not too difficult, but only 37% of firms in accommodations and food. Both of these figures suggest that implementation of such a policy is cumbersome, particularly for those most impacted. Remember, two-thirds of companies reported that they did not need to make changes, but only about half thought it was not too difficult to implement. Together, this suggests that compliance with the mandate is likely to be cumbersome and costly as firms seek to understand and implement the new requirements.

<u>Studies by the National Federation of Independent Business</u>

The National Federation of Independent Businesses (NFIB) has completed a series of studies regarding the potential effects of various mandatory paid sick leave proposals across the nation (Denver, Massachusetts, etc.).[11, 12] The results indicate high costs for employers as well as significant job losses. The costs arise from higher compensation costs due to providing paid sick leave (including wages, fringe benefits, and taxes such as the employer-share of payroll taxes; they also assume workers use the full allotment of paid sick leave). There will be lost production due to workers taking leave as well as costs of compliance in terms of paperwork and recordkeeping. Generally, they find that small-to-medium sized firms (those with fewer than 500 workers) incur two-thirds of the job losses and half of the loss in sales. Besides attempting to account for more of the costs incurred, their results tend to differ from that obtained by IWPR by assuming that workers will tend to use

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[10] Some Simple Economics of Mandated Benefits, AEA Papers and Proceedings, May 1989, http://www3.amherst.edu/~jwreyes/econ77reading/Summers.pdf

[11] Effects of Paid Sick Leave Mandate on Massachusetts Small Business, http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/massachusetts-paid-leave-nfib-study.pdf,

[12] Cost of a Paid Sick and Safe Time Mandate in Colorado, http://www.nfib.com/research-foundation/studies/more-studies/colorado-paid-leave

all of the paid sick days available and by minimizing potential benefits resulting from reduced turnover (based in part on a study by the CBO of the effect of health insurance on worker productivity).[13]

Criticisms of the NFIB studies by IWPR include overestimation of cost and ignoring benefits of mandatory paid sick leave. In particular, the NFIB studies assume employees will use all of the available paid sick leave, based on a 2000 Department of Labor study of the Family and Medical Leave Act as well as data from the BLS and Center for Disease Control regarding the average number of days that employees miss work. As mentioned previously, a recent report by the BLS shows that the average number of paid sick days taken by the typical worker is four. Also, the NFIB studies assume significant administrative costs even for firms that already offer paid sick leave. It is likely that all firms will face some administrative cost of implementing the proposal, even if they are in compliance (must provide evidence of compliance).

Cost Analysis of Denver's Paid Sick Leave Proposal

The city of Denver considered a paid sick leave proposal in 2011 which was similar to the one being proposed for Orange County, but the city's residents voted it down by nearly a 2 to 1 margin.[14] One reason was the potential cost to the city of Denver based on an analysis undertaken by the city itself. Unlike the proposal for Orange County, the Denver proposal also covered local government employees. The city of Denver already provides paid sick leave for full-time workers, but not for most part-time or seasonal workers. It estimated that it would cost the city $450,000 to cover the paid sick leave time as well as overtime costs for those who cover shifts for those on sick leave.[15] In addition, it estimated costs of enforcing the proposal as well as informing businesses of the new requirement to be an additional $245,000. One can argue that Orange County would face a lower cost since government employees are not covered by the proposal, but clearly the information and regulatory costs remain. Also, the estimated cost for the city of Denver demonstrates how businesses in the private sector are likely to be affected. These costs help to explain in part why the current Democratic mayor of Denver (Michael Hancock) as well as the former mayor and current Democratic governor of Colorado (Jon Hickenlooper) opposed the mandatory paid sick leave proposal.[16]

[13] Key Issues in Analyzing Major Health Insurance Proposals, http://www.cbo.gov/publication/41746

[14] Denver Voters Reject Initiative 300 Mandatory Sick Leave Measure, http://www.denverpost.com/commented/ci_19243207

[15] Sick-Pay Initiative to Cost Denver $690,500, City Analysis Says, http://www.denverpost.com/news/ci_18915060?source=pkg

[16] Sick-Pay Initiative to Cost Denver $690,500, City Analysis Says, http://www.denverpost.com/news/ci_18915060?source=pkg

A Brief Look at the Washington, DC Program[17]

Another city that has approved and implemented a mandatory paid sick leave program was Washington, D.C. There are some similarities as well as differences with the proposal for Orange County.

Key aspects

1. Employees earn paid sick leave based on size of firm (based on average monthly full-time equivalent (FTE) from prior calendar year)
    - Under 25: 1 hour for every 87 hours worked (max of 3 days)
    - 25-99: 1 hour for every 43 hours (max of 5 days)
    - 100+: 1 hour for every 37 hours (max of 7 days)
2. It exempts restaurant wait staff & bartenders (those that earn tips), work-study students, health care employees who opt for premium pay in lieu of benefits, and independent contractors
3. Employees are eligible after one year and having worked 1000 hours in the prior 12 months

One can notice clear differences between the program implemented in Washington, D.C. and the one proposed for Orange County. Several types of workers are explicitly not covered by the DC program as indicated in point two (including most restaurant workers). When considering the number of employees, DC considers FTEs as opposed to counting all employees equally (in other words, 4 part-time employees each working 10 hours a week would count as 4 employees under the Orange County proposal, but only as 1 FTE under the DC program). Also, the impact on small business is more limited as the maximum amount of paid sick leave is limited to three days for businesses with fewer than 25 employees and employees at those companies earn paid sick leave at a rate of one hour for each 87 hours worked. The criteria being proposed for Orange County (earning one hour for each 37 hours worked with a maximum of 7 days) does not kick in until firms have 100 or more employees in the DC program. In addition, employees must work at least 1000 hours a year to be eligible, rather than 160 as in the Orange County proposal. Thus, the DC program would be expected to be less costly than the one under consideration in Orange County, particularly in regard to small businesses.

[17] Accrued Sick and Safe Leave Act if 2008, http://www.udc.edu/docs/ogc/Accrued%20Sick%20and%20Safe%20Leave%20Act%20of%202008.pdf

IWPR's Study of the Orange County Proposal

In August 2012, IWPR released a briefing paper, "Valuing Good Health in Orange County: The Costs and Benefits of Earned Sick Time."[18] At the time of this writing, little information regarding the details behind the report was available. However, we can draw some conclusions about the validity of some of its conclusions. The study estimates that about 255,000 private sector employees lack paid sick leave in Orange County, about 45% of all workers. Apparently, the way they came up with this figure was to use the national figures for those without paid sick leave by industry and then applied it to the industrial composition within Orange County. The study states that about 148,600 (58%) of those without paid sick leave work for companies with fewer than 15 employees and thus won't qualify under the proposal. Thus, given the data in the study, the proposal requiring paid sick leave would extend the coverage to about 18% of private sector workers (a minority of those currently without paid sick leave). The primary conclusion of the report is that the benefits outweigh the costs with the overwhelming measured benefit resulting from reduced employee turnover for companies (savings of $37 million). In addition, community savings result primarily from fewer visits to the emergency room as well as a reduction in presenteeism.

There are a few inconsistences with a prior study, also conducted by IWPR, in which they found the median number of sick days taken following San Francisco's implementation of mandated paid sick leave was 3 days rather than the 2.5 assumed in this study.[19] Also, the study covering San Francisco indicated that ¼ of workers didn't take any paid sick days while the report for Orange County assumes ½ won't take any paid sick days. Furthermore, the study assumes that workers will only take 1.6 days per year, on average, for personal sick time, 0.5 days to care for family members, and 0.5 days for doctor's visits. Given all the attention being given to the need for mothers to stay at home to care for their sick children, it's interesting that when determining the cost of the program, they only assume that the average worker takes 0.5 day off per year to care for sick family members (of course some workers may not use this benefit while others will make above-average use of it).

The number of sick days actually taken is crucial when determining the cost of the mandate. Should we assume 2.5 days as in this study or 3 as in the study concerning San Francisco? Actually, according to a February 2012 report by the Bureau of Labor Statistics (BLS), the average is 4 days.[20] If the average worker takes 4 days of paid sick leave, as stated in the BLS report, based on the numbers provided by IWPR, the cost rises by $23 million.

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[18] Valuing Good Health in Orange County: The Costs and Benefits of Earned Sick Time, August 2012.

[19] San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees, http://www.iwpr.org/publications/pubs/San-Fran-PSD

[20] Paid Sick Leave: Prevalence, Provision, and Usage Among Full-Time Workers in Private Industry, http://www.bls.gov/opub/cwc/cm20120228ar01p1.htm

There is also some reason to question the primary source of savings, reduced turnover (with reported savings of $37 million). Though details of this study were not available at the time of this writing, it's likely that estimates of perceived reductions in turnover from companies that voluntarily implemented paid sick leave across all industries were obtained and applied to this study. In an earlier study, IWPR assumed savings of 5.3% of payroll based largely on a 1993 study primarily examining the effect of health insurance on worker loyalty (though sick leave was included in that study, there is question as to how the 5.3% was derived from that study).[21] Provision of paid sick leave is supposed to increase the employee's loyalty to the company, thus reducing employee turnover. However, if the employee knows that the company is forced to provide paid sick leave, one wonders whether this would enhance employee loyalty? In addition, if all businesses are required to provide paid sick leave, the employee would realize that the same benefit can be obtained from any company in the area, so it's not clear why that would result in increased loyalty to the current employer. There is also reason to question whether savings from voluntary programs included in the prior study easily translate to mandated programs. Furthermore, estimated benefits in one industry may not be comparable to other industries. For example, assuming that turnover is reduced so companies save in terms of not having to recruit and train new workers, the benefits to companies that hire high-skilled workers would be significantly different from those that hire relatively low-skilled workers. Given this, it is unlikely that employee turnover will be reduced as much as claimed.

Another significant source of benefits is supposed to be from fewer visits to the emergency room, saving the community $7.35 million. However, the study used to support this finding was self-published by IWPR (not peer reviewed).[22] Upon examination of the study, the relationship between the availability of paid sick leave and emergency room visits was found to be statistically insignificant (also, the R2 for different models based on the type of health insurance possessed ranged from 0.023 to 0.045; extremely low by any standard). Thus, the evidence presented does not indicate that access to paid sick leave results in fewer emergency room visits.

Finally, as discussed previously, the results of the IWPR study of the San Francisco program indicate that there was no noticeable change in those attending work while sick as a result of mandated paid sick leave (no net reduction in presenteeism). As a result, most of the other benefits to the community suggested are called into question.

Thus, it appears that the costs of the proposal for Orange County were underestimated while the benefits were overestimated. Rather than businesses achieving net savings, once one accounts for the likelihood of a higher number of paid sick days taken and a smaller benefit from any reduction in employee turnover, the framework provided by the IWPR would instead suggest a sizeable net loss for businesses.

[21] Cooper P. and A. Monheit, "Does Employment-Related Health Insurance Inhibit Job Mobility?" *Inquiry*, 1993, 30 (4), 400-416.

[22] Paid Sick Days and Health: Cost Savings from Reduced Emergency Room Visits, November 2011, p27.

Estimating the Costs of Mandated Paid Sick Leave in Orange County

A direct way to estimate the potential cost of mandating paid sick leave is to estimate the cost of compensating workers who take paid sick leave (see appendix for more details). Using the BLS number of workers taken, an average of 4 paid sick days (32 hours), and multiplying by the number of workers newly eligible for paid leave as well as their average hourly wage rate,[23] one can get a partial estimate of the cost.[24] Both the studies by IWPR and NFIB adjust this figure to include fringe benefits as well as payrolls taxes, workman's comp, and unemployment insurance. One final cost added is an administrative cost. A report by the IWPR uses the estimated fee for the TDI (temporary disability insurance program) program as the basis, which has been found to be 5.4%.[25] It assumes that a mandated paid sick leave program is much easier to manage and assumes a rate of 1.8%. Finally, based on the IWPR study of San Francisco, it is assumed that replacement workers are hired 10% of the time (that study reported that 8.4% of companies always or frequently hire replacement workers while 23.6% say they rarely hire replacements).[26] The result is a cost of about $196 million per year (if all workers currently without paid sick leave are covered). However, this figure is then adjusted based on the estimate of the percent of workers likely to be impacted, as provided by IPWR, which indicates that only 42% of those currently without paid sick leave will gain access to it as a result of the proposal. Based on the most recently available data, the estimate of the cost is $82.3 million per year. An alternative set of calculations reflecting different usage of paid sick days across industries (for example, below average use of paid sick days in leisure and hospitality) resulted in an estimated cost of $69.2 million per year. This should be treated as a low-ball estimate in that it doesn't take into account the administrative costs of firms that already provide paid sick leave but now must satisfy regulators. Of course there are regulatory costs faced by the government. How much would it cost the government of Orange County? When a similar proposal was considered by residents of the city of Denver, Colorado, the city estimated that it would cost about $245,000 per year to inform employees and enforce the requirement.[27] Given that the population of Orange County is nearly double that of Denver, Orange County's cost are likely to be significantly higher, probably about $400,000 (not double since there are economies of scale in terms of both information and enforcement costs).

[23] Florida Occupational Employment and Wages, http://www.floridawages.com/eds.php?page=1

[24] Valuing Good Health in Massachusetts: The Costs and Benefits of Paid Sick Leave, http://www.iwpr.org/publications/pubs/valuing-good-health-in-massachusetts-the-costs-and-benefits-of-paid-sick-days-2

[25] San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees, http://www.iwpr.org/publications/pubs/San-Fran-PSD

[26] Sick-Pay Initiative to Cost Denver $690,500, Says City Analysis, http://www.denverpost.com/news/ci_18915060?source=pkg

[27] "Colorado Gov. John Hickenlooper decries paid-sick-leave push", http://www.denverpost.com/politics/ci_18856803#ixzz22nQt48x0

The impact on employee compensation and profits in Orange County

As discussed earlier, the study of the San Francisco program by IWPR suggests that many workers not currently covered by paid sick leave will face reductions in other forms of compensation. Applying the results by industry for San Francisco to the Orange County economy suggests that 40% of those without paid sick leave will experience reduced compensation. In addition, also using the findings of the IWPR study of San Francisco, it is estimated that 54% of firms that do not currently offer paid sick leave will see lower profits, with smaller businesses being particularly hard hit.

Conclusion

Though there may be some benefits to requiring businesses to provide paid sick leave, clearly there are costs in implementing such a program. Given IWPR's estimate of how many workers will be covered by the proposal (about 106,000), it is estimated that the costs to businesses will be between $69.2 million and $82.3 million per year. Opponents of the proposal will question this figure since it does not include the regulatory costs faced by firms that already provide paid sick leave but may now be required to demonstrate to regulators that they are in compliance. It also does not include administrative costs faced by firms with fewer than 15 employees that are now required to provide unpaid sick leave. Supporters of the proposal will question why the benefits of the proposal are not included. Two of the major savings claimed by the IWPR report for Orange County are $37.5 million resulting from lower employee turnover and $7.35 million in reduced use of emergency rooms. As discussed in this report, satisfactory evidence of reduced use of emergency rooms is not available (evidence in a prior IWPR study reveals no significant relationship). Also, any reduction in employee turnover will likely be considerably less than claimed. In addition, the IWPR study of San Francisco shows no net reduction in presenteeism as a result of the mandatory paid sick leave program, thus reducing the likelihood of several of the other proposed benefits. Thus, even though the IWPR study for Orange County claims about $46.4 million of benefits, support for the benefits is lacking. Finally, using data from an IWPR study of the San Francisco program and applying it to the industrial composition of Orange County, it is estimated that 54% of firms affected by the proposal will experience reduced profits while 40% of employees without paid sick leave (about 42,500 employees) will face reductions in other forms of compensation. Based on the estimated cost of Denver's proposed program, it is estimated that Orange County government will incur costs of about $400,000 to inform employees of the required paid sick leave as well as to enforce compliance.

Given the weakness of the local job market, the addition of extra costs to doing business resulting from mandating paid sick leave would further weaken the recovery. One governor summed it up by saying, "You could not pick a worse initiative at the present time… If anything, it's going to cost jobs."[28] Was that Rick Scott? No, it was the democratic governor of Colorado, John Hickenlooper, commenting on the mandated paid sick leave proposal rejected by voters in Denver in late 2011. A mayor commented "I care a great deal about paid sick leave, but I care even more about people getting paid. People need jobs, and that's our number-one priority."[29] Was that Teresa Jacobs? No, it was the democratic mayor of Philadelphia, Michael Nutter, who vetoed a paid sick leave proposal in 2011. Mayor of Orange County, Teresa Jacobs, has expressed her opposition to the proposal in part due to the fact that "This would put us (Orange County) at a disadvantage when competing with surrounding counties for new businesses, and also could cost us existing businesses;"[30] a point echoed by Mayor Nutter of Philadelphia.

Though some portray the issue as big business vs. the little guy, the evidence suggests that the bulk of companies that currently do not provide paid sick leave are smaller businesses and thus much of the costs of mandating paid sick leave will be incurred by smaller businesses in terms of reduced profits and their employees in terms of reductions in other forms of compensation.

[28] http://articles.philly.com/2011-06-29/news/29717420_1_paid-sick-leave-bill-paid-sick-time-mayor-nutter/2

[29] My Word, Theresa Jacobs, Mayor of Orange County, August 14, 2012
[30] Florida Occupational Employment and Wages, http://www.floridawages.com/eds.php?page=0

Appendix A: Details behind the Estimation of the Cost

Estimating the Cost of the Mandated Paid Sick Leave Proposal[31]

Industry	Hourly Wage[32]	Not Currently Covered	Cost of Paid Sick Leave
Manufacturing	$21.29	10,975	$7,477,246
Construction	$20.54	15,779	$10,371,057
Transportation	$21.58	8,833	$6,099,716
Utilities	$25.72	110	$90,534
Wholesale Trade	$23.69	5,395	$4,089,751
Retail Trade	$13.95	37,245	$16,626,007
Information	$24.96	1840	$1,469,533
Finance	$25.56	5079	$4,154,412
Prof. & Tech. Serv.	$29.99	16,053	$15,405,743
Manag. Services	$31.33	3,765	$3,774,638
Admin. Services	$15.57	20,739	$10,332,940
Education/Health	$22.57	26,047	$18,812,546
Leisure/Hosp.	$11.75	109,498	$41,171,312
Other Services	$15.92	7,942	$4,046,227

Since the industries listed in the table reflect 99.4% of all private sector employees, the total cost of paid sick leave was adjusted accordingly, resulting in an estimate of $144.8 million. As done in the studies by IWPR, one should also account for employers paying "certain benefits and taxes as a percent of their payroll: retirement contributions and legally mandated payroll taxes (the employer's share of Social Security and Medicare taxes, plus federal and state unemployment insurance taxes and workers' compensation)."[33] There are also the administrative costs of the program, estimated at 1.8% of payroll (as suggested by IWPR). In addition, as suggested by the survey results of the IWPR study of the San Francisco program, it is assumed that businesses hire replacement workers 10% of the time. Given this, the estimated cost is $196 million, assuming all employees currently without paid sick leave are now covered. Given the estimate by IWPR that only 42% of those currently without paid sick leave in Orange County will be covered under the proposal, we arrive at an estimated cost of $82.3 million per year (as noted elsewhere, allowing for different rates of usage of paid sick leave across industries results in an estimate of $69.2 million per year).

[31] Valuing Good Health in Massachusetts: The Costs and Benefits of Paid Sick Days, May 2012, p11.

[32] San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees, http://www.iwpr.org/publications/pubs/San-Fran-PSD

[33] Valuing Good Health in Massachusetts: The Costs and Benefits of Paid Sick Days, May 2012, p11.

Appendix B: Details from the IWPR Study of the San Francisco Ordinance

The following quotes and tables are from the IWPR study of the San Francisco Paid Sick Leave Ordinance (PSLO) and are presented to provide better insight into the results of their study.[34]

"Two-thirds of San Francisco's employers offered paid sick days before the PSLO went into effect, according to employer reports (Table 8) in response to the PSLO. Approximately one out of six firms enacted a new paid-sick-days policy. A similar share increased their existing PSD accrual rate, and one-sixth of employers expanded the share of their workforce covered by paid sick days (Appendix Table 2); and overall, one-third of employers made at least one of these three changes, and most employers (two out of three) were unaffected by the PSLO." [p25]

How Firms Changed Their PSD Policies in Response to PSLO

Appendix Table 2

	One or more	No	Don't know
All firms	30.6%	63.7%	5.7%

When viewing the following tables, one should interpret them taking into account that nearly two-thirds of firms made no changes in response to the PSLO.

Understanding the Requirements and Difficulty in Administering the PSLO

Table 9: Firms' Report of Difficulty Implementing PSLO

Understand the Requirements			Administering the PSLO		
Not too difficult or not difficult	Somewhat or very difficult	Don't know	Not too difficult or not difficult	Somewhat or very difficult	Don't Know
52.0%	34.6%	13.4%	53.9%	31.4%	14.7%

It is reasonable to assume that firms that didn't make any changes to their policy probably understood the requirements better than others and also had less difficult administering it. Thus, the table above suggests even many of those already in compliance had difficulty understanding and administering the mandate.

[34] San Francisco's Paid Sick Leave Ordinance: Outcomes for Employers and Employees, http://www.iwpr.org/publications/pubs/San-Fran-PSD

Impact on Profitability

Table 11: Impact on Profitability

	better	About the same	worse	Don't know
All firms	0.6%	70.6%	14.2%	14.6%
Those making changes	2.8%	31.8%	65.4%	

It is reasonable to assume that companies that did not need to make any changes to their policy probably did not experience any change in profit. Thus, among those that did need to make changes and reported a yes or no response, 65.4% reported a decline in profits.

Impact on Compensation

Table 12: Employer Changes to Compensation in Response to PSLO

	yes	Don't know	no	
All firms	12.8%	6.6%	80.6%	
Those making changes	43.1%		56.9%	

It is reasonable to assume that companies that did not need to make any changes to their policy probably did not make any changes in compensation. Thus, among those that did need to make changes and reported a yes or no response, 43.1% reported reductions in some other form of compensation.

Impact on "Presenteeism"

Appendix Table 4

	better	About the same	worse
All firms	3.3%	80.4%	3.4%

Even without adjusting for those that did not make any changes, it is clear that this is a wash as nearly the same amount of firms reported better and worse experience with presenteeism.

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Bill Seyfried's expertise is in the areas of macroeconomics, including the Fed and monetary policy, as well as the interaction of the financial system and the global economy.

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