The Broad-Based Preemption Spark: Mandatory Paid Sick Leave

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Executive Summary

Big cities across the nation, including in Texas, are mandating that private employers provide their workers with paid sick leave hours. Proponents argue that the benefits outweigh the costs. However, research suggests otherwise, showing instead that this level of marketplace interference creates large burdens for employers, employees, and consumers alike. Further, research demonstrates that mandatory paid sick leave policies fail to achieve their stated purpose: to prevent employees from showing up to work sick. The data shows that there is virtually no change in the number of employees who come to work sick. In fact, 4 out of 5 studies that examined whether paid sick leave reduces workplace sickness found that it does not—and the fifth study did not give employers the option to report otherwise.

Proponents also claim that mandatory paid sick leave has minimally affected employers. But the studies cited include employers who already voluntarily offered paid sick leave to their employees, thus skewing the results due to the different impacts the provision will impose.

The research also exposes the high costs borne by employers. For example, many employers reported that it was either "somewhat difficult" or "very difficult" to keep records to administratively comply with the regulation, understand its legal requirements, and find a payroll vendor that could accurately track and report on accrued sick time. These increased costs have forced some employers to raise their prices for goods and services and pushed others to close or move outside of the range of the legal requirement. Still others have reported a reduced number of full-time employees, a reduced number of hours available for their employees, and decreased benefits, bonuses, and vacations for their employees. Anecdotally, some employers have even asserted that the mandate could negatively affect charitable giving.

Government-mandated paid sick leave is not just poor public policy though. There are also serious concerns about its legality.

In 2018, the Texas Public Policy Foundation represented a coalition of businesses and business associations in filing suit against the city of Austin over its paid sick leave ordinance. Among other things, the lawsuit alleges that the Texas Legislature has already passed legislation that preempts local governments from enacting this type of economic regulation.

According to the Texas Minimum Wage Act (TMWA), "[T]he minimum wage provided by [the act] supersedes a wage established in an ordinance" (Texas Labor Code § 62.0515). Following oral arguments in this case, the Third Court of Appeals emphasized this rationale, holding that "the plain language of the

Key Points

- The Texas Minimum Wage Act preempts local regulations that require private employers to pay their employees more than the federal minimum wage.
- Research shows that mandatory paid sick leave ordinances do not achieve their intended purpose of allowing employees to take time off when they are sick.
- The cost and consequences of mandating paid sick leave negatively affect employers, employees, and consumers.

TMWA preempts the Ordinance and, as a result, the Ordinance violates the Texas Constitution's mandate that no city ordinance 'shall contain any provision inconsistent with the...general laws enacted by the Legislature of this State." (*Texas Association of Business, et al. v. City of Austin,* 23).

As the next step following the Court's ruling, the Texas Legislature should embrace broad-based reform to prohibit cities and counties from enacting similar local labor law regulations. In fact, the Legislature should consider following Iowa's labor preemption approach, which prohibits local governments from adopting any law that provides for terms or conditions of employment that conflict with state or federal law (HB 295).

What is Paid Sick Leave?

The most common depiction of paid sick leave is a system whereby employees earn and accrue paid leave based on how many hours they work for a particular employer. Oftentimes, an employee may accrue one hour of paid sick leave for every thirty or forty hours of work performed. Accrued paid sick leave may also be offered in total at the beginning of a new year or the start of employment. Additionally, some employers offer a different form of sick leave altogether. For instance, in the restaurant business, an employer may offer an employee another shift within the same pay period rather than paying for both a replacement and paid sick time off. Generally, the accrual policy as well as the form of sick leave are left for the employer to decide.

The details of sick leave policies differ from place to place, but generally workers can use the time to care for themselves, their parents, children, or other family members. Paid sick leave is designed to accommodate an individual's short-term illnesses or injuries, seek preventative health care, or provide care for other family members' illnesses, injuries, and well-being. The intended purpose of paid sick leave policies is to provide workers with the opportunity to attend to health care matters without having to forgo their daily pay (DOL).

Importantly, there is a distinction between traditional and mandatory paid sick leave policies. The former arises out of voluntary arrangements between individual parties, which serves both the employer and the employee. The latter comes about through government coercion and satisfies political constituencies.

The Cost and Consequences of Government Mandated Paid Sick Leave

Paid sick leave affects all stakeholders throughout a business: the employer, current employees, prospective employees, and others. The problem is that while employees are

given the opportunity to take time off for sick leave-related issues, employers must find a way to cover the employee's wages, even though they receive no labor in return. Forcing businesses to provide paid sick leave places them in a situation where they may not be able to recover from the lost costs of labor and still have to pay benefits. In many cases this forces the employer to raise prices for their goods or services, slow their growth, or make cuts to any other improvement programs for their businesses (Nelsen).

Businesses aren't the only ones who may suffer from mandated paid sick leave. Employees have something to lose too. When an employer is required to provide a certain amount of paid sick leave, they may have to cut some employee benefits to adjust for the added costs. While older employees may value paid sick leave, younger employees may value a higher salary, more vacation time, or other negotiated terms of employment. Mandating paid sick leave will take away the ability to bargain over the optimal compensation package, and instead replace it with a one-size-fits-all government-mandated package that may not suit an individual employee's wants or needs. The individual essentially loses the freedom to contract (Dorn, 13-14).

Further, many employers, such as construction companies, airlines, and restaurants, operate on very tight margins. When companies are operating at such tight margins, there are many factors that can affect whether a project is financially viable. For example, in construction, many projects have profit margins of 1 to 3 percent (Hedley). If employers are mandated to provide paid sick leave to their workers, they will have to find other ways to allocate the cost of workers taking paid sick leave, which often results in lower pay or hiring fewer employees.

Paid Sick Leave in Texas

In 2018, Austin was the first major city in Texas and the southern United States to pass a local mandatory paid sick leave ordinance—No 20180215-049. This ordinance would alter Chapter 4-19 of the Austin City Code to require every private employer in the city with more than 15 employees to allow workers to accrue up to 64 hours, or eight work days, of paid sick time off per year. The paid sick time off accrues at a rate of 1 hour earned for every 30 hours worked. Small businesses with 15 or fewer employees must offer up to 48 hours, or six work days, of paid sick time off per year. Businesses with 5 or fewer employees were exempt from complying with the law until October 2020. Importantly, paid sick time hours carry over from one year to the next if they are unused.

The ordinance defines "employee" as "an individual who performs at least 80 hours of work for pay within the City

of Austin in a calendar year for an employer, including work performed through the services of a temporary or employment agency" (§ 4-19-I). Further, "employee" excludes independent contractors and unpaid interns.

Section 4-19-7 of the ordinance also affords the city government subpoena powers and the ability to assign civil and criminal penalties to businesses not in compliance. For example, a business that refuses to share records in relation to an alleged violation of the ordinance can be charged with a Class C misdemeanor. Finally, the ordinance allows unionized employers to set their own paid sick time off policies, thereby exempting them from the law's requirements. Austin's law was initially set to take effect in October 2018, but a temporary injunction has stayed implementation of the ordinance (*Texas Ass'n of Bus. v. City of Austin*).

Austin is not the only city in Texas to push for mandatory paid sick leave. Despite the Texas attorney general's warning to San Antonio against passing such a regulation, the city also passed a paid sick leave ordinance. Dallas attempted to pass a similar ordinance, but the city's efforts have since halted. In spite of the Third Court of Appeals' ruling on Austin's paid sick leave ordinance, San Antonio has yet to repeal theirs.

Claimed Benefits of Mandatory Paid Sick Leave Debunked: *People Still Show Up to Work Sick*

Several cities and states have implemented a mandatory paid sick leave policy. Following the implementation of these policies, many organizations began to study the effects that the policy had on businesses and their employees. It is important to note that new businesses can provide more information on the effects of paid sick leave because those who previously offered these policies will not be affected as heavily as those who did not offer paid sick leave prior to the ordinance's implementation.

A study conducted by the Institute for Women's Policy Research (IWPR) followed the enactment of mandated paid sick leave in the different areas throughout the United States to evaluate the effect of paid sick leave and "illness-related work absences," among other things. In their study of San Francisco employers following the enactment of mandatory paid sick leave, **IWPR found that 3.3 percent of employers reported a decrease in employees coming to work sick,** 3.4 percent reported an increase in employees coming to work sick, and 80.4 percent reported no change (Drago and Lovell, 40).

In a comparison of mandatory paid sick leave studies, 4 out of 5 studies to examine presenteeism—the frequency of

employees working sick—found no reduction (Nelsen, 2). Thus, after receiving paid sick leave, employees continued to go to work sick. If employees continue to be sick at work, then the claimed benefit of mandatory paid sick leave does not apply.

Further, proponents also claim that mandatory paid sick leave promotes public health: people won't get other people sick. The most common example of this is a waiter with the flu coming to work at a restaurant. However, the evidence regarding presenteeism and the lack of data to demonstrate whether there has been a decrease in the spread of illness resulting from mandatory paid sick leave do not support the public health claim.

Small Businesses Are Hurt as a Result of Paid Sick Leave

Effects on employers

Small businesses employed 45.6 percent of the private workforce in Texas in 2015, and the majority of those businesses have less than 100 employees (SBA, 177). Small businesses also made up 92.9 percent of companies exporting goods from Texas (SBA, 179). Small businesses are important to Texas' economy, and mandatory paid sick leave will have a negative effect on these businesses.

In Seattle, the city auditor sent out surveys to businesses following the implementation of mandatory paid sick leave asking businesses to report back information on the difficulty of implementation, the costs associated with implementation, and the effects on their employees.

Employers reported difficulties with mandatory paid sick leave's implementation (Romich et al., 26):

- 32 percent of all surveyed employers reported it was either "somewhat difficult" or "very difficult" to keep the administrative records the ordinance requires.
- 29 percent reported that it was either "somewhat difficult" or "very difficult" to understand the legal requirements.
- 24 percent reported it was either "somewhat difficult" or "very difficult" to work with a payroll vendor to report accrued time.

Employers also reported increased costs (Romich et al., 28, A25):

- 16.5 percent of all surveyed employers reported decreased profitability.
- 7.1 percent raised prices.
- 0.6 percent closed or moved locations outside Seattle.

While looking through these numbers, it is important to note that the city auditor reported that only 37 percent of the businesses surveyed changed their policies because of the ordinance and only 22 percent of the employers began offering paid sick leave to full-time and part-time employees for the first time (Romich et al. A23, 19). Thus, of the 59 percent affected by the ordinance, a majority had at least some difficulty with its implementation. Further, many of the businesses surveyed were not fully in compliance with the ordinance, and therefore the study could not fully ascertain how much the ordinance would cost them.

Young workers are disproportionately affected as a result of mandatory paid sick leave

While older employees, or employees with dependents, may find benefit in mandatory paid sick leave, younger workers without dependents may not require the same benefit. Paid sick leave is a one-size-fits-all policy where there will be some winners and some losers.

In Connecticut, before the implementation of mandatory paid sick leave, a study conducted by the Employment Policies Institute (EPI) found that paid sick leave and age had a positive correlation, and about 70 percent of employees had paid sick leave by the time they reached their mid-30s (Ahn, 7). Once the ordinance was implemented the data shows that the middle-aged and older employees were almost completely unaffected, while younger workers were.

After the implementation of mandatory paid sick leave, the average worker between the ages of 20 and 34 saw a reduction in hours worked by about 24 hours—about a 1.5 percent reduction. The annual income in that age range dropped by about 850 dollars—about a 3.3 percent reduction. The effect is significant, "especially for many of these workers who are new to the labor market" (Ahn, 10).

The EPI study highlights the increased cost of labor for employers, "and the bulk of this cost falls on younger workers" (Ahn, 11). The reduction of hours for these younger employees "may have long-term consequences as experience and building up human capital through learning-on-the-job are especially important for these recent entrants into the workforce" (Ahn, 11).

Workers lose their job or have to work fewer hours

While some employers may be able to cut costs elsewhere, many employers are forced to cut hours for employees, and in some cases, lay off employees. While the mid-to-high range employees likely won't be affected by the implementation of a mandatory paid sick leave policy, low-wage workers will see a significant effect. According to the Employment Policies Institute (EPI), "nearly 30 percent of the

lowest-paid employees in [San Francisco] reported layoffs or reduced hours at their place of work" (Saltsman).

Further, researchers asked employers in San Francisco about the effects mandatory paid sick leave had on their employees. Employers with a *new policy as a result of the ordinance* reported (Colla et al.):

- 38.6 percent reduced compensation
- 30.1 percent decreased employee vacation time
- 13.8 percent reduced pay raises or bonuses

Businesses that had to implement a paid sick leave policy following a city mandate can provide more information on the effects of paid sick leave because those that previously offered these policies will not be affected as heavily as those who did not offer paid sick leave prior to the ordinance's implementation. Those businesses that already provide paid sick leave bear less financial and organizational burden than those that did not. The inclusion of businesses that voluntarily offered paid sick leave with those that did not may skew the results because the former will feel less of an impact on their business. On the contrary, employers who did not have a sick leave policy would now have to find the money in their budget, or make significant changes.

Mandatory paid sick leave is preempted by Texas State Law: <u>Texas Ass'n of Bus. v. City of Austin</u>

The Texas Constitution prohibits local regulations from "contain[ing] any provision inconsistent with the ... general laws enacted by the Legislature of the State" (art. XI, § 5(a)). The Texas Minimum Wage Act (TMWA) explicitly states that "the minimum wage provided by [the act] supersedes a wage established in an ordinance" (Tex. Labor Code § 62.151). Accordingly, the Texas Minimum Wage Act preempts local regulations that require private employers to pay their employees more than the federal minimum wage. In effect, such regulations like Austin's paid sick leave ordinance violate the Texas Constitution (Texas Ass'n of Bus. v. City of Austin).

The wage defined by the TMWA follows the standards set by the federal Fair Labor Standards Act (FLSA), 29 U.S.C. § 206. The FLSA and its implementing regulations require that the pay for employees be evaluated for compliance with the minimum wage by the work week, not by the hour, and only require pay for hours actually worked on behalf of the employer. In contrast, the paid sick leave ordinance requires employers to track hours worked even for employees paid on a salary basis and exempt from FLSA rules. Section 61.001(7)(B), Texas Labor Code, defines the term "wages" as including "compensation owed by an employer for ... sick leave pay ... owed to an employee under a written

agreement with the employer or under a written policy of the employer." Further, the Internal Revenue Service (IRS) defines wages as "all remuneration for employment, including the cash value of all remuneration (including benefits) paid in any medium other than cash" (26 U.S.C.S. § 3121(a)).

Notwithstanding the definitions above, even applying the plain meaning of "wage" results in the same conclusion: paid sick leave is a wage. An ordinance requiring employers to provide paid sick leave effectively increases the employee's wage for hours actually worked.

The Texas Legislature, the U.S. Congress, and the IRS have all made it clear that paid sick leave is incorporated into the definition of wages. Further, the Third Court of Appeals has clearly stated that mandatory paid sick leave violates the Texas Constitution because of its preemption by the TMWA. Therefore, requiring a private employer to provide paid sick leave is in direct contrast with the Texas Minimum Wage Act.

The state defines and limits local control

Local governments receive their authority from *the state*, must be supervised *by the state* because of their peculiar susceptibility to factionalism, and are held accountable *by the state* because the state bears the ultimate responsibility for their actions. Therefore, they are creatures *of the state*, and their authority is limited and checked by *the state*.

Thus, they lack independent authority, because they "never were and never have been considered as sovereign entities. Rather, they have been traditionally regarded as subordinate governmental instrumentalities created by the state to assist in the carrying out of state governmental functions" (Bennett v. Brown Cty. Water Imp. Dist., 506-07). Additionally, they must be supervised because of their peculiar vulnerability to charismatic leaders and factions. In the course of making the case for a large, federal republic, our nation's leaders explained that smaller democratic units are more susceptible to factions that may abuse their power and trample on the people's liberty. As James Madison stated in Federalist No. 10:

The influence of factious leaders may kindle a flame within their particular States, but will be unable to spread a general conflagration through the other States. A religious sect may degenerate into a political faction in a part of the Confederacy; but the variety of sects dispersed over the entire face of it must secure the national councils against any danger from that source. A rage for paper money, for an abolition of debts, for an equal division of

property, or for any other improper or wicked project, will be less apt to pervade the whole body of the Union than a particular member of it; in the same proportion as such a malady is more likely to taint a particular county or district, than an entire State.

Madison's recognition of the need for competing centers of power within a republican form of government was heavily influenced by the philosophical works of the French lawyer Montesquieu (149), who wrote:

Should a popular insurrection happen in one of the confederate states, the others are able to quell it. Should abuses creep into one part, they are reformed by those that remain sound. The state may be destroyed on one side and not on the other; the confederacy may be dissolved, and the confederates preserve their sovereignty.

Montesquieu's point is that the presence of multiple, competing governments within the same polity allows for those governments that remain sound to admonish and correct those governments that abuse their power. Since local governments are particularly susceptible to abusing their power, it is all the more important that the state government continue to enforce a supervisory role.

In addition to the state's formational and supervisory role over local governments, the state maintains ultimate responsibility for the local government's actions. The state's restrictions on local government power operate not only to protect citizens, but also to safeguard the state. The state ultimately answers for the local government's actions. In its supervisory role, the state operates as a check on local government overreach and, therefore, has the ability and responsibility to set limits on the exercise of local control.

In Texas, "it has become a fundamental principle in our theory of government, to entrust probably the largest portion of the powers of the Government, to be exercised within their limits, to local control, under town and city charters" (*City of Navasota v. Pearce*). However, the gift of local control is still governed under the laws of the state. Texas law clearly prohibits cities from enacting charters or ordinances that are inconsistent with the Texas Constitution or Texas statutes.

Consequently, Texas law restrains local authority and defines the limits of municipal power—including the exercise of local control. Any city ordinance or charter inconsistent with the Texas Constitution or Texas statutes is unenforceable and must be struck down (*Dallas Merch.'s & Concessionaire's Ass'n*, 491).

Austin's Mandatory Paid Sick Leave Ordinance

A councilmember released the proposed language for Austin's paid sick leave ordinance about a month before the council's vote took place. However, the final language voted on, which did not match the original language, was only given to councilmembers the day of the vote—giving them no time to deliberate. Prior to the day of the vote, it was unclear who would be affected, how they would be affected, and whether some employers would be exempt.

In a 9-2 vote on February 15, 2018, the Austin City Council approved the mandatory paid sick leave ordinance. Of the two opposing votes, Councilwoman Ellen Troxclair expressed concern about the effects on small businesses, especially those with 15 or fewer employees. Her amendment proposal, which would have exempted such small businesses from the ordinance,

did not pass (<u>Austin City Council</u> 2018, 213-15).

During the hearing, business owners who came to voice their opinions were greeted with boos and hisses from the ordinance's supporters when they spoke in opposition of the ordinance. Councilwoman Troxclair said "business owners ... felt ... bullied, [and] absolutely threatened throughout th[e] process" (Lisheron). This was not the only concern.

It would have been appropriate for Austin city councilmembers to investigate the economic impact of the mandatory sick leave ordinance. No such study was conducted prior to their

Further issues with the ordinance

While the ordinance does not contain any data on why mandatory paid sick leave is necessary, or even helpful, the city council passed a resolution on September 28, 2017, directing the city manager to convene a stakeholder process to gain feedback relating to a mandatory paid sick leave ordinance. The resolution begins by including several general unsubstantiated claims, followed by a statistic that says "approximately 37% of workers in the City of Austin lack paid sick time; and ... up to 70% of workers go without access to paid sick time in jobs that require frequent contact with the public" (Resolution No. 20170928-055).

The research that the city council is referring to was conducted by the Institute for Women's Policy Research (IWPR) on a nationwide scale (<u>IWPR</u>). IWPR did not actually survey the city of Austin; rather, the organization,

which supports the implementation of mandatory paid sick leave, used outdated national statistics and estimated what they think the numbers would be in Austin. The use of national statistics to estimate the outcome in Austin skews what the realistic outcome in Austin would be. Further, outdated statistics, at the state or national level, cannot account for the growth and change that places like Austin continue to experience on a monthly or yearly basis. The use of such data will not provide an accurate estimate on the current state of Austin,

What are the costs?

Before implementing any new law, it is both appropriate and reasonable for the governing body to gather enough information to ensure that an informed decision can be reached. Thus, before passing this ordinance that would affect all employers in the city, it would have been appropriate for the councilmembers to investigate the economic impact of the ordinance. No such study was conducted prior to the council's vote.

vote.

Since the ordinance's approval, some businesses have spoken on the economic effect it would have on their businesses. Don "Skeeter" Miller, owner and president of the County Line restaurant, discussed how he currently handles issues of sick leave and how this ordinance will affect his business. To comply with this ordinance only at his Austin location and at the basic employee level would cost approximately \$200,000 a year, which does not include the cost of payment for an employee's replacement during a missed shift (Miller, 2018).

or even Texas.

Details about the implementation also remain unclear. For example, if a delivery worker based outside the city travels through Austin during a delivery, does the ordinance apply? Further, if an employee moves in and out of the city limits multiple times in a day, which hours count toward the paid sick leave and which do not? What if he or she moves in and out of the city in the same hour? These questions are important and have not been answered, let alone discussed.

The city is giving itself too much power

The ordinance empowers the director of the Equal Employment Office/Fair Housing Office (EEO/FHO) to investigate known and anonymous complaints that allege violations of this ordinance. Through the investigation, "the director ... may subpoena relevant information," which only includes that which is "necessary to determine whether a violation of this Chapter has occurred" (No 20180215-049).

Employers who violate the requirements face "a civil penalty up to \$500 against the employer for each violation" (No 20180215-049). Moreover, the ordinance creates a criminal offense "if the person fails to comply with a subpoena issued and served on the person as provided" in the ordinance, which is punishable as a Class C misdemeanor.

These subpoena powers that the city has given to itself are a violation of a business' right against unreasonable search and seizure. Businesses have a legal right to obtain a precompliance review of an administrative subpoena before a neutral decision maker (*City of Los Angeles v. Patel*). However, under this ordinance, licensees are required to submit to these subpoenas with no judicial review provision prior to compliance.

The ordinance carves out unionized employers

Article I, § 27 of the Texas Constitution guarantees that "The citizens shall have the right, in a peaceable manner, to assemble together for their common good; and apply to those invested with the powers of government for redress of grievances or other purposes, by petition, address or remonstrance." As part of their protected constitutional right of association, plaintiffs have the

right to not associate, i.e., to not be a unionized employer operating with a collective bargaining agreement.

According to the ordinance, "A written contract made pursuant to Title 29, Section 158(d) of the United States Code between an employer and a labor organization representing employees may modify the yearly cap stated in [the ordinance]." Essentially, a unionized employer may modify the yearly cap to zero paid sick leave time, if they would like to.

However, the ordinance denies this right to nonunionized employers. This creates a distinction between unionized employers and nonunionized employers based on the exercise of their right to associate. That is not rationally related to any legitimate governmental interest and fails to serve a compelling governmental interest sufficient to overcome strict scrutiny necessitated by the discriminatory provision's burden on the freedom of association.

Recommendations

The Texas Public Policy Foundation, on behalf of its business coalition clients, filed suit against the city of Austin concerning the paid sick leave ordinance, arguing that the ordinance is preempted by the Texas Minimum Wage Act. Recently, the Third Court of Appeals agreed—holding that this ordinance violates the Texas Constitution because it is

preempted by the TMWA.

The union exception from the mandatory sick leave ordinance is not rationally related to any legitimate governmental interest.

The Texas Legislature should advance the Court's decision by enacting a broad-based preemption bill concerning employment conditions and wages. By taking a broader approach, the state would have clear authority to preempt any future local laws that conflict with the state constitution or laws, including the existing attempts for mandatory paid sick leave. In doing so, the Legislature should follow Iowa's approach in enacting

a law that prohibits any county or city from enacting an ordinance that provides for conditions of employment that conflict with or exceed state and federal law. The new Iowa law preempts local laws concerning minimum wage, employment leave, employment benefits, scheduling and hiring practices, or other conditions of employment (HB 295). Enacting such broad preemption will not only promote freedom and liberty, but it will also allow Texas to continue to prosper.

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