

**Office of  
The City Attorney  
City of San Diego**

**MEMORANDUM**

**(619) 236-6220**

**DATE:** July 9, 2014

**TO:** Councilmember Mark Kersey

**FROM:** City Attorney

**SUBJECT:** Application of California Labor Code Section 351 To A Local Minimum Wage Ordinance

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**INTRODUCTION**

On June 11, 2014, at the Economic Development & Intergovernmental Relations Committee hearing, Councilmember Mark Kersey commented that the City of Seattle's local minimum wage ordinance contained a "tip credit"<sup>1</sup> for tipped employees. Councilmember Kersey acknowledged that California Labor Code section 351 (Section 351) prohibits employers from using a tip credit to supplement state minimum wage, but he asked this Office to analyze what role, if any, Section 351 may play in City of San Diego's (City) ability, as a charter city, to enact a local minimum wage ordinance.

**QUESTION PRESENTED**

What role does Section 351 play in the City's ability, as a charter city, to enact a local minimum wage ordinance?

**SHORT ANSWER**

Although the law is not clear, Section 351 likely prohibits a charter city from enacting a local minimum wage ordinance that permits employers to use a tip credit to supplement the difference between state and local minimum wage obligations to tipped employees.

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<sup>1</sup> A "tip credit" is a practice by which an employer credits a certain amount of the tips received by an employee against the employee's wages. In other words, when using a tip credit, the employer may pay an employee less than minimum wage, with the understanding that the employee's tips will make up the difference. *See Etheridge v. Reins Internat. California, Inc.*, 172 Cal. App. 4th 908, 914-15 (2009). In this circumstance, a local minimum wage with a tip credit would allow certain employers to pay tipped employees less than *local* minimum wage (but not less than state minimum wage) so long as the tipped employees earned enough in tips to make up the difference between state and local minimum hourly wage requirements.

However, beyond a direct tip credit, it is unclear the impact of Section 351 on other alternatives such as a two-tiered minimum wage ordinance, total compensation model or exemption for tipped employees. Adoption of any of these models could result in adjudicating new law in the State of California. This Office is willing to review specific proposed ordinances and provide more detailed analysis.

## BACKGROUND

The City may enact local laws that do not conflict with general state laws of statewide concern. Article XI, section 7 of the California Constitution provides that “[a] county or city may make and enforce within its limits all local police, sanitary, and other ordinances . . . not in conflict with general laws.” Cal. Const. art. XI, § 7. This “police power” allows the City to enact a local minimum wage ordinance higher than the minimum wage required by state law, provided that it does not “conflict” with state law. “A conflict exists if the local legislation duplicates, contradicts, or enters an area fully occupied by general law, either expressly or by legislative implication.” *Sherwin-Williams Co. v. City of Los Angeles*, 4 Cal. 4th 893, 897 (1993) (citations omitted). Charter cities, like the City, have greater police power than general law cities because they may adopt or enforce ordinances that conflict with general state laws, provided that the subject of the ordinance is a “municipal affair” and the general state law does not address a “statewide concern.” Cal. Const. art. XI, § 5(a); *American Financial Services Ass’n v. City of Oakland*, 34 Cal. 4th 1239, 1251 (2005).

The California Labor Code provides minimum requirements for employers. California Labor Code section 1205(b) authorizes municipalities to exercise local police powers with respect to labor standards “in a more stringent manner” than the state. This language expressly permits the City to enter this field of legislation and enact a local minimum wage higher than state minimum wage. *See RUI One Corp. v. City of Berkeley*, 371 F.3d 1137, 1150 (9th Cir. 2004). But the City’s freedom to enact a local minimum wage higher is not without limitation.

Section 351, is a general state law that protects gratuities<sup>2</sup> earned by employees. Section 351 provides, in pertinent part:

No employer or agent shall collect, take, or receive any gratuity or a part thereof that is paid, given to, or left for an employee by a patron, or deduct any amount from wages due an employee on account of a gratuity, or require an employee to credit the amount, or any part thereof, of a gratuity against and as a part of the wages due the employee from the employer. Every gratuity is hereby declared to be the sole property of the employee or employees to whom it was paid, given, or left for.

Cal. Lab. Code § 351.

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<sup>2</sup> A “gratuity,” as defined in California Labor Code section 350(e), is “any tip, gratuity, money, or part thereof that has been paid or given to or left for an employee by a patron of a business over and above the actual amount due the business for services rendered or for goods, food, drink, or articles sold or served to the patron.” Cal. Lab. Code § 350(e).

A court would decide, as a question of law, whether Section 351 conflicts with, and thus preempts, a local minimum wage ordinance. *Apartment Ass'n. of Los Angeles County, Inc. v. City of Los Angeles*, 136 Cal. App. 4th 119, 129 (2006). A general state law of statewide concern preempts local legislation that “contradicts” with that state law. *Big Creek Lumber Co. v. County of Santa Cruz*, 38 Cal. 4th 1139, 1150 (2006) (citations omitted). A court will “look to the whole purpose and scope of the legislative scheme” to determine whether it preempts local legislation. *San Diego Gas & Electric Co. v. City of Carlsbad*, 64 Cal. App. 4th 785, 793 (1998) (citations omitted). However, a court will not imply preemption “where local legislation serves local purposes, and the general state law appears to be in conflict but actually serves different, statewide purposes.” *Garcia v. Four Points Sheraton LAX*, 188 Cal. App. 4th 364, 374 (2010) (citation omitted).

## ANALYSIS

### I. CALIFORNIA LABOR CODE SECTION 351 LIKELY CONFLICTS WITH A LOCAL MINIMUM WAGE ORDINANCE THAT INCLUDES A TIP CREDIT

Whether Section 351 preempts a local minimum wage with a tip credit will depend on how a court interprets the scope of Section 351. Interpreted narrowly, Section 351 prohibits an employer from using a tip credit to subsidize an employee’s state-mandated minimum wage. Interpreted broadly, Section 351 generally prohibits any action that results in the same “evil” as a tip credit. The origin of this confusion regarding Section 351 lies in its legislative history. Section 351 was enacted in 1917 and has undergone numerous revisions. Consequently, it has an extensive legislative history filled with various declarations of intent – some of which clash with each other.<sup>3</sup>

The City’s regulation of wages on a city-wide basis is not a traditional “municipal affair” and Section 351 likely regulates conduct of a statewide concern. Therefore, if a court determines that Section 351 conflicts with a local minimum wage law that includes a tip credit, the City’s status as a charter city will not save the local minimum wage law from preemption.

#### A. Interpreted Narrowly, Section 351 May Not Conflict With a Local Minimum Wage That Includes a Tip Credit

Arguably, a court could rely on select legislative history and case law to construe Section 351 narrowly to prohibit only “tip credits” that lessen an employer’s obligation to pay

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<sup>3</sup> The statute was originally passed to prevent fraud upon the public, which arguably occurs when an employer takes a tip from an employee without informing the patron who left the tip that the employee will not benefit from that tip. *See Henning v. Industrial Welfare Commission*, 46 Cal. 3d 1262, 1271 (1988). Indeed, California Labor Code section 356 provides that the purpose of the article (including Section 351) is “to prevent fraud upon the public in connection with the practice of tipping . . .” Cal. Lab. Code. § 356. However, the California Supreme Court does not consider this declaration of intent “definitive” because it was enacted in 1929, before Section 351 was amended to its current form. *See Henning*, 46 Cal. 3d at 1280.

*state* mandated minimum wage.<sup>4</sup> Under this interpretation, a local minimum wage that includes a tip credit may not contradict or conflict with Section 351.

Courts have not offered any guidance on the interplay between Section 351 and a local minimum wage ordinance. Every Section 351 case that analyzes “tip credits” does so in the context of an employer’s obligation to pay *state* minimum wage. The California Supreme Court’s decision in *Henning v. Industrial Welfare Commission*, 46 Cal. 3d 1262 (1988), is the most prominent case to analyze Section 351 and “tip credits.”

In *Henning*, the California Supreme Court evaluated whether the Industrial Welfare Commission’s (IWC) “two-tiered” minimum wage regulation that permitted employers to pay tipped employees less than full California minimum wage violated Section 351. The court reviewed the extensive legislative history of Section 351 and held that, pursuant to the intent reflected in this history, Section 351 barred the IWC from establishing a two-tiered minimum wage system that permitted employers to pay tipped employees a California minimum wage less than other non-tipped employees. *Id.* at 1280.

The Court thoroughly analyzed the legislative history of Section 351 and highlighted those bits that narrowly interpret the intent of Section 351 to prohibit *state* action that allows employers to pay less than *state* minimum wage. For example, in the 1975-1976 legislative sessions, the Senate Committee on Industrial Relations articulated that the purpose of the current language in Section 351 was to “eliminate the authority of the *Industrial Welfare Commission*<sup>5</sup> to permit an employer to receive or deduct from employee wages any part of a gratuity given to or left for an employee by a patron.” *Id.* at 1274-75 (emphasis added). The Court also identified legislative history that suggested the “effect of [Section 351] would be to require employers to pay employees *at least the minimum wage* regardless of the amount of tips the employees receive.” *Id.* at 1275 (emphasis added). Taken together, this legislative history suggests that the Section 351 could be interpreted narrowly to prohibit a *state* agency (the IWC) from enacting any regulation or law that would allow employers to use a tip credit to pay a tipped employee a wage lower than *state* minimum wage.

If a Court adopted this interpretation, Section 351 may have no impact on a local minimum wage.<sup>6</sup> This would leave municipalities with free reign to enact local minimum wage legislation that excluded tipped employees (in any manner), so long as these tipped employees still earned *state* minimum wage.

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<sup>4</sup> Tip credits against minimum wage are permissible under the federal Fair Labor Standards Act. 29 U.S.C. § 203(m).

<sup>5</sup> The Industrial Welfare Commission was a five-member appointive board in the Division of Industrial Welfare of the State Department of Industrial Relations vested with the authority to ascertain the wages, hours and working conditions of employees in California. *Rivera v. Div. of Indus. Welfare*, 265 Cal. App. 2d 576, 581 (1968). The IWC was defunded on July 1, 2004.

<sup>6</sup> If a Court found that Section 351 did not conflict with a local minimum wage that included a tip credit, it would not analyze whether the City’s status as a charter city exempted it from Section 351.

## **B. Interpreted Broadly, Section 351 Likely Conflicts With a Local Minimum Wage That Includes a Tip Credit**

Legislative history and case law also permit a court to interpret Section 351 more broadly to prohibit any action by employers (not just state government action) that results in “taking gratuities intended for its employees or . . . deducting that money from an employee’s wages.” *Avidor v. Sutter’s Place, Inc.*, 212 Cal. App. 4th 1439, 1449 (2013). This interpretation sprouts from the legislative history associated with the declaration in Section 351 that “[e]very gratuity is hereby declared to be the *sole property* of the employee or employees to whom it was paid, given, or left for.” Cal. Lab. Code § 351 (emphasis added).

In 1973, the legislature added language to Section 351 declaring gratuities the “sole property” of an employee. The legislative history shows that this “was included in section 351 to prevent employers from ‘obtain[ing] the *benefit* (as, in effect, the payment of wages) of tips and other gratuities received by their employees . . . .” *Lu v. Hawaiian Gardens Casino, Inc.*, 50 Cal. 4th 592, 600 (2010), (*citing* Ops. Cal. Legis. Counsel, No. 3740 (Feb. 29, 1972) Tips: A.B. 78, p. 1.) (emphasis added). Several courts have indicated that this legislative intent *generally* prohibits an employer from benefiting from employee gratuities. *See e.g., Leighton v. Old Heidelberg, Ltd.*, 219 Cal. App. 3d 1062, 1068 (1990) (the legislative intent behind Section 351 “was to ensure that employees, not employers, receive the full benefit of gratuities that patrons intend for the sole benefit of those employees who serve them.”); *Garcia v. Four Points Sheraton LAX*, 188 Cal. App. 4th 364, 375 (2010) (Section 351 “ensure[s] that gratuities are not used by an employer to satisfy wage obligations.”)

Along this vein, even if employers do not physically receive employee tips, they may still violate Section 351 by “indirectly” benefiting from employee tips. *Henning*, 46 Cal. 3d at 1276 (“The Legislature could not have intended to allow indirectly what it forbade directly.”) Thus, a local minimum wage that includes a tip credit *indirectly* benefits employers because it permits an employer “to pay a tipped employee a wage lower than the minimum wage he would be obligated to pay if the employee did not receive tips.” *Id.* at 1278. Such a proposal would also likely deprive tipped employees of the “full benefit” of the tips they receive because they would receive less total income than if they were included in a local minimum wage. *See Leighton*, 219 Cal. App. 3d at 1068.

If a court chose to focus on the “sole property” language of Section 351 and the legislative history associated with this language, it would likely find that a local minimum wage that included a tip credit conflicts with Section 351 because it indirectly benefits employers and deprives tipped employees of the full benefit of their tips.<sup>7</sup>

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<sup>7</sup> Arguably, cases permitting “tip-pooling” between hospitality workers suggests that courts are hesitant to strictly construe this “sole property” language. Interpreted literally, if Section 351 provides that employee tips are the “sole property” of the employee or employees they were intended for, then tip-pooling violates Section 351 because it takes the employee’s property and gives it to another employee. However, courts have avoided this conflict by reasoning that Section 351 permits tips to be shared among all employees who *contribute to the service* that resulted in the tip, and as long as the employer or the employer’s agent (a manager) does not share in the tips, then tip pooling does not violate Section 351. *See Etheridge*, 172 Cal. App. 4th at 923.

Public excerpts from a confidential Memorandum provided by outside counsel to the Berkeley City Attorney's Office analyzing this exact issue parrot this reasoning. The public excerpts from this Memorandum conclude:

Given that the legislative intent behind Labor Code Section 351 was to ensure that employees receive the full benefit of a gratuity payment or a tip, it is likely that a tipped wage credit, even against a local minimum wage, would violate the law. The purpose of the statute is to ensure that employees receive the gratuity given freely and voluntarily to them. We believe that a tipped wage credit against a local minimum wage would violate the purpose as stated by the legislature and supported by the California Supreme Court. Although no common law is on point, including the credit into the Ordinance would subject it to legal risk of challenge.

City of Berkeley, Supplemental Agenda Material, Meeting Date May 6, 2014, Item Number B, Memorandum by Zach Cowan, p. 2.<sup>8</sup>

Additionally, in *Etheridge v. Reins Internat. California Inc.*, 172 Cal. App. 4th 908 (2009), the court hinted that Section 351 applies beyond the state minimum wage context. In *Etheridge*, the court stated, in dicta, that one of the reasons the Legislature prohibited tip credits was because they allowed the employer to use tipped employees to subsidize the minimum wages of non-tipped employees. *Id.* at 915. The court reasoned that an employer would be committing the same "evil" if it used a tip pool<sup>9</sup> to subsidize the *market wages* of non-tipped employees. *Id.* The court's recognition that the "evil" prohibited in Section 351 could apply to situations where any employer uses tips to subsidize "market wages" – not just minimum wages – suggests that Section 351 could apply beyond the state minimum wage framework.

Although no court has interpreted how Section 351 may impact a municipality's ability to enact a minimum wage ordinance, the weight of the legislative history and case law authority suggest that Section 351 likely applies beyond the state minimum wage context and prohibits a local minimum wage with a tip credit.

## **II. THE IMPACT OF CALIFORNIA LABOR CODE SECTION 351 ON ALTERNATIVES IS UNCLEAR.**

As discussed above, courts have not offered any guidance on the interplay between Section 351 and a local minimum wage ordinance. Although a direct tip credit is more likely to run afoul of Section 351, there are other local minimum wage alternatives to a tip credit, including a two-tiered wage ordinance, total compensation model or an outright exemption for tipped employees.

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<sup>8</sup> Available at [http://www.cityofberkeley.info/Clerk/City\\_Council/2014/05\\_May/Documents/2014-05-06\\_Item\\_B-a\\_Minimum\\_Wage\\_Ordinance\\_-\\_Supp.aspx](http://www.cityofberkeley.info/Clerk/City_Council/2014/05_May/Documents/2014-05-06_Item_B-a_Minimum_Wage_Ordinance_-_Supp.aspx)

<sup>9</sup> A "tip pool" is the practice of pooling some or all of the tips received by tipped employees to share with other employees at the business. *Etheridge*, 172 Cal. App. 4th at 915. California courts have held that Section 351 prohibits tip pooling when an employer shares the tips with employees who do not contribute to the patron's service. *Id.* at 923.

Section 351 may still impede options that are not direct tip credits but are designed to achieve the same result. The *Henning* Court refused to narrowly interpret Section 351 to prohibit just the *practice* of using tip credits. Instead, the Court found that the “words and legislative history of [Section 351]” revealed an intent to prohibit the “effect” of a tip credit, “i.e., lower income for tipped employees.” *Henning*, 46 Cal. 3d at 1279. Using this rationale, the *Henning* Court found no *practical* difference between a statute that permits employers to credit employee tips towards minimum wage (a tip credit) and a statute that provides a lesser minimum wage to tipped employees (an alternative minimum wage). *Id.* (“[a]lthough in form they may be different, in function the ‘tip credit’ and the ‘alternative minimum wage’ are identical.”).

If the rationale in *Henning* is followed, a court would likely focus on whether the “effect” of an alternative local minimum wage mirrors the “effect” of a local minimum wage with a tip credit. In this circumstance, an alternative local minimum wage that exempts tipped employees, considers the employees’ total compensation or establishes a two-tiered scale likely does result in the same effect if it “permit[s] an employer to obtain the benefit of his employee’s tips by paying the employee a wage lower than he would be obligated to pay if the employee did not receive tips.” *Id.*

At this point, without an actual ordinance to review, this Office cannot conduct any further analysis of alternatives.

### **III. THE CITY’S STATUS AS A CHARTER CITY LIKELY DOES NOT EXEMPT IT FROM SECTION 351**

Assuming that a local minimum wage ordinance conflicts with Section 351, the City’s status as a charter city would probably not protect it from preemption because a local minimum wage ordinance is likely not a municipal affair and Section 351 likely addresses a statewide concern.

Article XI, section 5 of the California Constitution grants charter cities the exclusive power to legislate with respect to “municipal affairs.” Cal. Const. art. XI, § 5; *Conejo Wellness Ctr., Inc. v. City of Agoura Hills*, 214 Cal. App. 4th 1534, 1552 (2013). But in matters concerning a statewide concern, charter cities like all other cities are subject to the general state laws. *Prof’l Fire Fighters, Inc. v. City of Los Angeles*, 60 Cal. 2d 276, 292 (1963). “Any fair, reasonable and substantial doubt whether a matter is a municipal affair or broader state concern must be resolved in favor of the legislative authority of the state.” *Cox Cable San Diego, Inc. v. City of San Diego*, 188 Cal. App. 3d 952, 962 (1987). Therefore, a charter city ordinance that conflicts with a general state law will be preempted unless it concerns a municipal affair and the conflicting general law does not address a matter of statewide concern. *Gonzales v. City of San Jose*, 125 Cal. App. 4th 1127, 1134-35 (2004).

Local, city-wide, minimum wage legislation does not fit within the category of a traditional municipal affair. Article XI, section 5(b) of the California Constitution provides a nonexclusive list of municipal affairs, including: the constitution, regulation, and government of the city police force, subgovernment in all or part of a city, the conduct of city elections, and the compensation, election, appointment and removal process for officers, deputies, clerks and employees. *See* Cal.

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Const. art. XI, § 5(b). Traditionally, the term “municipal affairs” encompasses the “internal business affairs of a municipality” *Butterworth v. Boyd*, 12 Cal. 2d 140, 155 (1938).

Local regulation of private citizen conduct is not always a municipal affair. *See e.g., City of Los Angeles v. Tesoro Refining and Marketing Co.*, 188 Cal. App. 4th 840, 849 (2010) (the use of power by residents of Los Angeles was not a municipal affair). This is especially the case when the local regulation is not connected in any way to a traditionally recognized municipal affair. *See State Bldg. & Const. Trades Council of Cal., AFL-CIO v. City of Vista*, 54 Cal. 4th 547 (2012) (Vista’s ordinance prohibiting the payment of prevailing wages on City projects is a municipal affair, but it only affects private employers who contract with the city – not all private employers). In *City of Pasadena v. Charleville*, 215 Cal. 384 (1932) the court found that setting wage levels of contract workers constructing locally funded public works was a municipal affair, but insinuated that the “fixation of [wages] to be paid under all employment contracts, public and private” is not a municipal affair. *Id.* at 390.

Here, a city-wide local minimum wage would regulate the conduct of all private employers and employees beyond the scope of the City’s internal business affairs. Although no court has determined whether local minimum wage regulation concerns a municipal affair, this type of regulation likely does not concern a municipal affair because it does not fit within the categories courts have identified as municipal affairs.

Additionally, even if a court determined that a local minimum wage law concerned a municipal affair, the California Supreme Court has implied, in dicta, that Section 351 addresses a statewide concern. The *Henning* case opens with the statement, “[w]e granted review in this proceeding to answer a question that is *urgent and of statewide importance*: whether . . . a so-called ‘two-tier’ minimum wage system containing a lower, ‘alternative minimum wage’ for certain employees who customarily receive tips, is barred by Labor Code section 351.” *Henning*, 46 Cal. 3d at 1265 (emphasis added).

Therefore, the City’s status as a charter city likely has no impact on whether Section 351 preempts a local minimum wage that conflicts with its provisions.

#### **IV. A LOCAL MINIMUM WAGE THAT EXCLUDES ANY EMPLOYEES WOULD REQUIRE EQUAL PROTECTION ANALYSIS**

Under the Equal Protection Clause, a state may not “deny to any person within its jurisdiction the equal protection of the laws.” U.S. Const. amend. XIV, § 1; Cal. Const. art. I § 7. The clause “is essentially a direction that all persons similarly situated should be treated alike.” *City of Cleburne v. Cleburne Living Center*, 473 U.S. 432, 439 (1985).

California courts have articulated two different levels of judicial scrutiny depending on the nature of the classification at issue: “rational basis” standard and “strict scrutiny” standard. Courts apply the “rational basis” standard to the review of “economic and social welfare legislation in which there is a ‘discrimination’ or differentiation of treatment between classes or individuals.” *Hernandez v. City of Hanford*, 41 Cal. 4th 279, 298-299 (2007) (citations omitted).

Courts apply the “strict scrutiny” standard to the review of cases involving differentiation of treatment between “suspect classifications” and/or “fundamental interests.” *Id.* at 299.

A proposal to treat tipped or high income earning employees differently does not implicate any “suspect” classification or “fundamental interest” and, as such, would pass an equal protection challenge if there is a rational basis for the treating such employees differently. This rational basis standard is “very lenient,” especially when a municipality uses its police power to pursue social and economic policy in incremental steps. *See F.C.C. v. Beach Commc'ns, Inc.*, 508 U.S. 307, 316 (1993) (such legislative judgments are “virtually unreviewable, since the legislature must be allowed leeway to approach a perceived problem incrementally.”) On two occasions, courts have found unequal treatment in the payment of wages to pass a rational basis review, but these cases do not analyze how Section 351 may influence a rational basis analysis.

In *Fortuna Enterprises, L.P. v. City of Los Angeles*, 673 F. Supp. 2d 1000 (C.D. Cal. 2008), the court rejected an equal protection challenge to a Los Angeles city ordinance that designated the Corridor as a business district and required hotels with 50 or more employees in this area to pay their employees a living wage above California’s minimum wage. *Id.* at 1002, 1012–14. According to the *Fortuna* court, the Los Angeles City Council “acted rationally when it concluded that in exchange for the ‘significant and unique business benefits’ that the hotels enjoy from their close proximity to the airport, and the significant capital contributions that the City plans to make . . . the hotels should be required to pay a living wage.” *Id.* at 1014.

Likewise, in *RUI One Corp. v. City of Berkeley*, 371 F.3d 1137 (9th Cir. 2004), the Ninth Circuit held that Berkeley’s ordinance that required businesses located in the City’s Marina to pay their employees a living wage higher than California’s minimum wage did not violate the Equal Protection Clause. *Id.* at 1155-56. The Court recognized that Berkeley had a rational basis to require employers in the Marina area to “contribute to the welfare of the surrounding community” to a greater degree than other employers in Berkeley because the Marina employers “receive so many benefits from [Berkeley] in the form of improvements and lack of competition due to the development moratorium, and which operate on land held in the public trust.” *Id.* at 1156.

If Council intends to propose a local minimum wage that excludes tipped or other employees from a local minimum wage, this Office may need to conduct further Equal Protection Clause analysis.

## CONCLUSION

The City has the constitutional authority to enact a local minimum wage ordinance, so long as it does not directly conflict with a general state law. Section 351 declares that an employee’s gratuity is the “sole property” of that employee and employers may not “collect, take, or receive” any gratuity left to an employee or deduct any amount of wages to an employee on account of such gratuity. Although Section 351 clearly prohibits an employer from using a tip credit to pay state minimum wage to a tipped employee, no cases have analyzed the application of Section 351, if any, to a local minimum wage ordinance.

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The weight of authority suggests that Section 351 likely prohibits a charter city from enacting a local minimum wage ordinance that permits employers to use a tip credit to supplement the difference between state and local minimum wage obligations to tipped employees. However, beyond a direct tip credit, it is unclear whether Section 351 prohibits other alternatives such as a two-tiered minimum wage ordinance, total compensation model or exemption for tipped employees.

A local minimum wage that excludes any tipped employees or high income earning employees may also implicate the Equal Protection Clause because it would deprive these employees of a benefit available to all other employees. However, so long as there is a rational basis for this distinction, it would likely survive an Equal Protection Clause challenge.

JAN I. GOLDSMITH, CITY ATTORNEY

By /s/ Gregory J. Halsey

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Gregory J. Halsey

Deputy City Attorney

GJH:sc

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cc: Honorable Mayor  
Councilmembers