

Recommendation to Review Staff's Analysis and Provide Direction on Possible Next Steps, including Community Outreach, Determining Potential Fiscal Impacts, and Returning with a Minimum Wage Ordinance. (Community Development 256000)

To: Honorable Mayor and Members of the City Council

From: Elizabeth D. Warmerdam, Acting City Manager

Re: Recommendation to Review Staff's Analysis and Provide Direction on Possible Next Steps, including Community Outreach, Determining Potential Fiscal Impacts, and Returning with a Minimum Wage Ordinance

BACKGROUND

In April, 2016, the State of California adopted legislation (SB 3, Leno) to reach a statewide \$15 per hour minimum wage by January 1, 2023. After 2023, the minimum wage will be indexed annually for inflation (national Consumer Price Index, CPI), with a floor of zero percent and a ceiling of 3.5 percent. Many Bay Area cities have also enacted minimum wage ordinances with more aggressive timetables than the State's for reaching the \$15 per hour level. In all of these local ordinances, once the \$15 per hour level is reached, the minimum wage will continue to increase annually by the rate of the CPI. Hence, by reaching the \$15 level sooner, and including the annual CPI adjustment, these jurisdictions will continually be above the state's minimum wage requirements.

Three Bay Area cities—Emeryville, Mountain View, and Sunnyvale—have already enacted a \$15 minimum wage, and Berkeley's minimum wage will increase to \$15 in October, 2018. Large employers located in Emeryville will pay the highest rate, which is currently \$15.20 and expected to reach \$15.60 in July, 2018. By comparison, the City of Alameda's current minimum wage, which follows the state standards, is \$10.50 for small employers with 25 or fewer employees and \$11.00 for those with over 25 employees.

On November 1, 2016, City Council in a referral directed staff to review enacting a minimum wage increase in Alameda. Staff has prepared a summary and comparison of minimum wage requirements of surrounding cities and discussion points for Council direction.

DISCUSSION

In the Bay Area, 16 cities have implemented minimum wage measures that are more aggressive than State law. The majority (nine) are in the South Bay/Silicon Valley region. In addition to San Francisco, the remaining six are along the 80/880 corridor. No cities in the interior part of Contra Costa County have minimum wage ordinances. (See Exhibit 1: Bay Area Cities with Minimum Wage Ordinances.)

Many of the minimum wage ordinances in the South Bay are coordinated to reach \$15 per hour in January, 2019. This coordination was fostered by a regional study commissioned by the Cities Association of Santa Clara County (Cities Association) and the City of San Jose and conducted by the U. C. Berkeley Labor Center.¹ The Cities Association adopted a model ordinance recommendation for implementing minimum wage increases in Santa Clara County.

In the East Bay, Berkeley, Oakland, San Leandro, Emeryville, El Cerrito, and Richmond have adopted minimum wage ordinances. Oakland's ordinance was a ballot initiative approved by voters in 2014; the other ordinances were passed by respective city councils. While the minimum wages in these jurisdictions vary, all will reach \$15 per hour sooner than the statewide minimum wage. The exception is Oakland's minimum wage, which increases based on the CPI and is projected to reach \$15 at the same time as the state minimum wage.

Discussed below are certain parameters of local minimum wage ordinances for the Council's consideration.

Time to Implement

Most cities went through a lengthy approval process, with a series of public hearings, workshops and sub-committee meetings, ensuring wide public awareness and vetting of potential measures. Once a city council approved an ordinance, the average period between approval and effective date was 4.2 months, ranging from two months (e.g. Berkeley and Mountain View) to 8.5 months (San Leandro).

The cities also differed in the length of time from the effective date of an ordinance and average annual percent increase to reach the \$15 standard (the "on-ramp" time). The State's minimum wage law reaches \$15 over five years, with an average increase of 7.4 percent per year.

For Bay Area cities, the length of the on-ramp ranged from two to seven years with the percentage increase between 2.6 percent and 16.78 percent. In general, shorter on-ramps translate to larger percentage increases per year to reach the \$15 per year wage. However, there are some exceptions to this rule. For example, Emeryville had a higher minimum wage, or a higher starting point, when it enacted its ordinance. Therefore, it had a relatively shorter on-ramp with low annual percentage increases to reach \$15 per hour.

Business Size and Consideration of Other Benefits

Some jurisdictions differentiate between small and large employers or other jobs or employer characteristics. The State establishes a slower increase in the minimum wage for employers with 25 or fewer employees. Emeryville allows smaller employers, those with 55 or fewer employees, a lower initial minimum wage, with the rates for small and

large employers eventually evening out. In Southern California, five jurisdictions—the City of Los Angeles, Los Angeles County, Malibu, Pasadena, and Santa Monica—allow a lower minimum wage for small employers. One Bay Area city, San Mateo, allows non-profits to pay their employees a lower rate in the early years of implementation of the ordinance, with the rates for non-profit and for-profit employers eventually becoming the same.

Some cities, such as San Leandro and Richmond, differentiate between the required minimum wage for jobs that come with benefits and those that do not. In these two jurisdictions, if an employer provides medical benefits, the employer can pay \$1.50 less per hour than the otherwise-required minimum wage.

“Off-ramp” Provision and Exemptions

There are also variations in whether local ordinances include provisions for pausing wage increases due to economic circumstances, so-called “off-ramping provisions,” modeled after State law. Under the State law, the wage increase schedule may be temporarily suspended by the governor during an economic downturn. For both the State and the local ordinances, the off-ramps do not apply once they reach \$15 per hour.

The five Bay Area cities with off-ramp provisions are Cupertino, Los Altos, Milpitas, San Jose, and Santa Clara. These off-ramp provisions are nearly identical to one another. The conditions that warrant a pause in the minimum wage increases are:

- Total non-farm employment for California, seasonally adjusted, decreased over the three-month period from April to June, or over the six-month period from January to June.
- California state retail sales and use tax cash receipts are less than those from the previous fiscal year.

In each of these cities, determinations are made annually, several months in advance of the next scheduled wage increase, which is often in January. Typically, a city department gathers information from the State Employment Development Department and State Board of Equalization and makes a recommendation to the city manager, who makes the official determination. For example in Cupertino, the city manager submits a determination to the city council stating whether any of the economic conditions are met for pausing the minimum wage increases. By October 1, the city council decides whether to suspend the minimum wage increase that was set to take effect the following year.

Staff Recommended Option and Two Alternatives

Staff Recommendation: Conduct community outreach and return with a recommendation.

Staff recommends that the City Council direct staff to conduct widespread community outreach during the summer and fall of 2018, and return to City Council with a

recommendation in late November or early December 2018. Widespread and meaningful community participation will be essential for consideration of any future minimum wage ordinance. All of the Bay Area jurisdictions that adopted local minimum wage ordinances conducted extensive community outreach prior to presenting the ordinance to the governing body for a vote. Community outreach would give the City Council the opportunity to evaluate public support for an increase to the minimum wage and gather input from local employers. The objectives of the community outreach will be to:

- Present information to businesses and residents on the effects of Bay Area minimum wage ordinances on their communities;
- Solicit concerns with and levels of support for a minimum wage ordinance and possible inclusion of benefits and sick leave considerations.

Staff proposes extensive outreach to the following (including conducting presentations and soliciting information through social media and an on-line survey):

- Local business organizations, including the Chamber of Commerce, the Downtown Alameda Business Association, the West Alameda Business Association, the Greater Alameda Business Association, and the Harbor Bay Business Park Association via board of directors meetings, membership mixers, and newsletter articles with links to an online survey.
- Businesses that tend to employ workers at minimum wage and have hourly wage employees (an increase in minimum wage would also likely increase the wages of other hourly wage employees above entry level positions). These would include:
 - restaurants
 - daycare centers
 - assisted living facilities and healthcare support operations
 - manufacturers
 - grocery stores
 - retail stores
 - non-profit organizations
- Local community organizations, such as the Alameda Renters Coalition.
- Local labor unions such as the United Food and Commercial Workers, Teamsters, etc.
- The Mayor's Economic Development Advisory Panel, and the Recreation and Parks Commission.

This option also gives staff sufficient time to determine the potential impact on the City's budget to implement an ordinance that will require an increase in wages paid to city employees and possible corresponding impacts on the community due to increases in user fees, program costs, and General Fund to cover the wage increases (see Financial Impact below).

Alternative Option 2: Maintain the State's minimum wage schedule

If the City of Alameda does not adopt a minimum wage, the State of California's wage schedule will apply. Given that the earliest feasible date for implementing a local minimum wage—without extensive community engagement—would be January, 2019, the gain for Alameda workers might not substantially greater than they would receive under State law, due to the phased nature of a minimum wage ordinance. As noted above, to achieve a \$15 per hour wage ahead of the State law, increases would average 9.3 percent or 12.6 percent annually and be effective one or two years ahead of the State law.

Under the moderate scenario presented in Exhibit 2, the City could raise its minimum wage by \$1.50 per year and achieve a \$15 minimum wage by 2021. Although this second scenario would make the greatest difference for workers, it could also be the hardest on businesses with an average increase wage of 12.6 percent per year. A report published by the League of California Cities argued that if a city's schedule of wage increases differs only slightly from the state minimum wage, the benefits of adopting the local wage may not be worth the costs of monitoring and enforcement.²

Alternative Option 3: Direct Staff to Draft a Minimum Wage Ordinance

The final alternative is for the City Council to direct staff to begin drafting a minimum wage ordinance that is more aggressive than the State's timetable with an abbreviated public outreach process. Sufficient lead times for community outreach allows businesses to prepare for and adjust to the wage increases, and allows the City to prepare for the implementation and enforcement of the ordinance, including amending its own budget and/or fee schedules related to City programs with high-levels of part-time employees, 87% of which are Recreation Programs. An Alameda ordinance would need to be adopted at the first Council meeting in September if it is intended to go into effect with a four month lead-time on January 1, 2019.

In drafting a local minimum wage ordinance, the Council would need to decide how to approach different components of the ordinance. Cities must decide whether to make the minimum wage applicable to all employers regardless of size, and whether to create exceptions to the ordinance. In addition, cities must evaluate whether the ordinance should include a provision that acknowledges medical benefits.

Staff has outlined several potential scenarios to illustrate how a local minimum wage for Alameda could be structured to increase more rapidly than the California minimum wage. Exhibit 2 (Alameda Minimum Wage Scenarios) illustrates these scenarios and states the percentage increases that would occur in the minimum wage each year, as well as the average annual increase between January 2019 and the date when a \$15-per-hour minimum wage would be reached. These scenarios are for both small and large employers. (City Council could also decide to have no distinction between small and large employers, as done in other Bay Area cities.)

²

FINANCIAL IMPACT

The estimates below represent the added salary costs to the City associated with the scheduled increases in the minimum wage from \$12 to \$15 an hour. Accelerating the increase in Alameda's minimum wage would result in the City incurring the cost at an earlier date. For example, raising the minimum wage to \$15 in 2019 instead of \$12 an hour would add \$194,000 to the City's base salary costs.

The City does not have any full-time classifications that earn less than \$15 per hour. Over 87% of employees who are currently earning less than \$15 per hour are employed part-time by Recreation and Parks Department in their recreation programs. The Library employs approximately 5% of employees making less than \$15 per hour providing general library support. An increase in the minimum wage would impact these two Departments significantly and would require an increase in fees for service or a greater General Fund contribution in order to maintain current service levels.

Accelerating the minimum wage has the following estimated financial impact to the City:

City of Alameda

Estimated Cost of Minimum Wage Increase

<u>Minimum Wage</u>	<u>Est. Salary Costs with Each Min. Wage Implementation</u>
\$12.00 per hour (eff. 2019)	\$ 49,700
\$13.00 per hour (eff. 2020)	\$ 42,900
\$14.00 per hour (eff. 2021)	\$ 74,300
\$15.00 per hour (eff. 2022)	\$ 76,800
TOTAL	\$ 243,700

**Cost estimates include additional cost of PARS and Medicare contributions as well as additional increases due to salary compaction*

This staff report does not have a complete estimate of the cost to the City of Alameda for adopting a minimum wage ordinance; such analysis would be developed if the Council directs staff to move forward with developing an ordinance. Additional costs may include:

- The cost of existing contractors, particularly for jobs such as crossing guards and janitorial services, which rely heavily on employees who earn minimum wage, and
- Monitoring and enforcement.

MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

If a minimum wage ordinance is adopted, it will be consistent with the requirements of the Alameda Municipal Code.

ENVIRONMENTAL REVIEW

This is an informational report for the discussion of alternatives and is not a project as defined by Public Resources Code section 21065 and California Environmental Quality Act (CEQA) section 15378.

If the City were to adopt a minimum wage ordinance in the future, the ordinance would be categorically exempt from CEQA. Pursuant to Section 15324 of the State CEQA Guidelines, actions taken by regulatory agencies to regulate employee wages, hours of work, or working conditions are exempt from CEQA review.

RECOMMENDATION

Direct staff to conduct community outreach, determine potential fiscal impacts, and return with a recommendation for a minimum wage ordinance.

Respectfully submitted,
Debbie Potter, Community Development Director

By,
Eric Fonstein, Development Manager

Financial Impact section reviewed,
Edwin Gato, Interim Finance Director

Exhibits:

1. State of California and Bay Area Cities with Minimum Wage Ordinances
2. Alameda Minimum Wage Scenarios

¹ Link to this study: <http://laborcenter.berkeley.edu/the-effects-of-a-15-minimum-wage-by-2019-in-santa-clara-county-and-the-city-of-san-jose/>. This study includes projections of the impacts of a minimum wage on factors like retail prices, levels of employment, and household income.

² See http://www.meyersnave.com/wp-content/uploads/LOCC_Minimum-Wage-Ordinance_2016_Mog_Woodruff.pdf