

BUSINESS OF THE COUNCIL OF THE CITY OF HALF MOON BAY

AGENDA REPORT

For meeting of: **December 17, 2019**

TO: Honorable Mayor and City Council

VIA: Bob Nisbet, City Manager

FROM: Matthew Chidester, Deputy City Manager
Victor Gaitan, Management Analyst

TITLE: MINIMUM WAGE ORDINANCE STUDY SESSION

RECOMMENDATION:

Receive an update on the research, findings and outreach regarding a local minimum wage ordinance in the City of Half Moon Bay, and provide direction for the development of the recommended ordinance.

FISCAL IMPACT: There is no impact related to the update. If the City moves forward with a local minimum wage, staff estimates the annual fiscal impact to be between \$20,000 - \$40,000 to account for the administration, outreach, and enforcement of the ordinance. These costs include staff time and any contracted support that may be necessary for enforcement. Funding would come from the general fund.

STRATEGIC ELEMENT:

This action supports the *Fiscal Sustainability* and *Inclusive Governance* elements of the Strategic Plan.

BACKGROUND:

The City Council made exploring the establishment of a local minimum wage one of their five priorities for FY 2019-20. Following this direction, staff compiled research about the effects of local minimum wage ordinances on other cities and conducted outreach to local business stakeholders to collect feedback on the proposed policies.

Federal, State, and Local Minimum Wages

The minimum wage established by Federal, State and local government law sets the lowest wage an employer legally may pay to workers. The highest of any of these laws prevails. The Federal minimum wage for covered nonexempt employees has been set at \$7.25 per hour since 2009.

On April 4, 2016, the California Governor signed legislation (SB 3, Leno) which will raise California's minimum wage to \$15 per hour by January 1, 2022 for employers with 26 employees

or more and January 1, 2023 for employers with 25 employees or less. After January 1, 2023, future wage increases will be tied to changes in the Consumer Price Index (CPI), up to 3.5% per year. The Governor may suspend minimum wage increases during economic downturns. The increased minimum wage levels are applied uniformly across the state. The law also maintains existing exemptions in the minimum wage law.

| State of California Minimum Wage | | |
|---|--|--|
| Effective Date | Employers w/ 25 Employees or Less | Employers w/ 26 Employees or More |
| January 1, 2016 | \$10.00 | \$10.00 |
| January 1, 2017 | \$10.00 | \$10.50 |
| January 1, 2018 | \$10.50 | \$11.00 |
| January 1, 2019 | \$11.00 | \$12.00 |
| January 1, 2020 | \$12.00 | \$13.00 |
| January 1, 2021 | \$13.00 | \$14.00 |
| January 1, 2022 | \$14.00 | \$15.00 |
| January 1, 2023 | \$15.00 | \$15.00 |
| January 1, 2024 | CPI | CPI |

Local governments retain the ability to adopt local minimum wage ordinances. Such ordinances can increase the minimum wage more rapidly than the statewide timeframe or can increase the minimum wage beyond the level set by the State. Currently, Half Moon Bay employers are subject to Federal and State minimum wage laws. Since the State’s law on minimum wage is higher than the Federal law, covered employers are required to pay the State’s minimum wage. Similarly, should the City enact a local minimum wage ordinance that is higher than State law, covered employers are required to pay the City’s minimum wage.

Twenty-nine states and the District of Columbia have wages higher than the federal minimum of \$7.25 per hour. As of October 2019, forty-nine local agencies (cities and counties) across the country had enacted a local minimum wage ordinance. Nineteen of the forty-nine agencies are cities located in the Bay Area.

Currently, there are six cities in San Mateo County with adopted local minimum wage ordinances (San Mateo, Belmont, Redwood City, Daly City, Menlo Park, and South San Francisco). In addition to Half Moon Bay, the Cities of San Carlos and Burlingame are also currently considering adopting local minimum wage ordinances. A summary of the adopted ordinances is attached.

Minimum Wage Studies

Staff looked at half a dozen contemporary minimum wage studies, including reports from the Congressional Budget Office, Center on Wage and Employment Dynamics, and the National Bureau of Economic Research. These studies focused on dozens of American cities, particularly a 2018 report from the London School of Economics, which tracked and discussed the impacts of 138 minimum wage increases in the United States from 1979 to 2016.

Increased minimum wage costs can affect businesses in several ways. In the studies the City reviewed, common responses to an increased minimum wage included passing on the additional cost to consumers via the price of goods and services, as well as reducing staff hours. None of the studies, however, showed statistically significant findings of businesses going out of business solely because of the increase in minimum wage costs. According to the Congressional Business Office, “over time, as businesses increasingly pass their higher costs on to consumers, the losses in business income diminish and the losses in families’ real income grows.” Collectively, these studies agreed that research on minimum wage impacts for employees and employers is outpacing policymaking, but that current data showed positive or neutral effects for employees receiving minimum wage increases.

The most critical study of minimum wage increases that the City researched was “Minimum Wage Increases and Individual Employment Trajectories,” from the National Bureau of Economic Research. It stated that workers had 45 minutes cut from their shift each week by employers, but employees made up the difference in lost earnings from increased wages. The Institute for Research on Labor and Employment found in its research of approximately 40 American cities that increased minimum wages from 2005 to 2017 lead to “substantial declines in household and child poverty,” but stressed more long-term research is needed.

Outreach and Feedback

Over the last two months, City staff have conducted outreach to business owners and key business stakeholder groups about the proposed increase to the local minimum wage in Half Moon Bay. Outreach methods included e-mails, phone calls, 1-on-1 meetings, roundtable business meetings, and a postcard that was mailed to every business registered in the city (approximately 550 businesses) inviting businesses to attend a business stakeholder meeting. In addition, the City has established a dedicated webpage on the city’s website for the minimum wage initiative.

City staff met or spoke with the following key business stakeholder groups:

- Half Moon Bay Coastside Chamber of Commerce
- Half Moon Bay Hotel Business Improvement District
- Downtown Business Association
- San Mateo County Central Labor Council
- San Mateo County Convention and Visitors Bureau
- California Restaurant Association
- San Mateo County Farm Bureau

Stakeholder Feedback

Organized Labor

Representatives of the San Mateo County Central Labor Council expressed overwhelming support for a \$15.00 per hour minimum wage and expressed that they have supported every minimum wage increase that has occurred in San Mateo County.

Small Group Business Meetings / One-on-One Meetings

Based on the research collected, staff conducted outreach with the premise of establishing a local minimum wage of \$15 per hour by July 1, 2020. Outreach to local businesses in Half Moon Bay included a mix of small group business meetings (mainly with the Downtown Business Association and the Hotel Business Improvement District) and some One-on-One interactions. Several of the retail and professional businesses shared that they are already paying employees at least \$15 or more and don't feel that the local minimum wage ordinance would adversely affect them. Restaurants and Hotels expressed the greatest concern about having a significant increase in local minimum wage. Concerned businesses shared that going straight to \$15 on July 1, 2020 is a big jump (\$2 over the state minimum) and would be difficult to bear in the middle of the calendar year. These businesses mentioned that budgets have already been set for 2020 and considering the significant payroll administration work that has to be conducted to adjust employees' wages, they would be much more open to a wage increase taking effect on January 1, 2021. Some businesses expressed that the largest wage increase they could realistically handle with minimal adverse effects is \$1.50 increase at most, and ideally, they'd prefer an incremental increase over a one to two-year period.

Business also addressed the issue of wage compaction noting that as wages for their lowest paid workers are raised, wages for all other workers must increase as well leading to increased costs across the board. Some conveyed that increases in wages also leads to increases in operating costs on Social Security, Medicare, and Workers Compensation as they are tied to employee compensation. Additionally, some restauranteurs had concerns around the impact of tipped employees and the wage disparity with kitchen staff. In mentioning that several other cities in San Mateo County have already enacted their own local minimum wage ordinances, businesses repeatedly mentioned that due to the nature of Half Moon Bay being a tourist economy, businesses run on thinner margins and don't see the foot traffic that larger cities see. Due to this, they expressed that it is difficult to compare Half Moon Bay to other cities and that businesses in Half Moon Bay would be more adversely affected by minimum wage increases than other cities.

Overall, while some businesses who are already paying \$15 or more per hour expressed support, the general feedback staff received from most businesses was of concern and asking for more time to prepare for any potential increase or for an incremental increase.

Tipped vs. Non-Tipped Employees

Some of the feedback staff received from restaurants and hotels asked about the possibility of excluding tipped workers from any local minimum wage. Consistent with an opinion from the State of California Office of Legislative Counsel, cities cannot allow for a different minimum wage for tipped employees vs non-tipped employees. All employees would be subject to the same local minimum wage requirement regardless of tips or gratuities received.

Exceptions for Federal, State, and County Agencies, including School Districts

Local minimum wage ordinances cannot impose a minimum wage on Federal, State, or County agencies, including school districts. Each has their own jurisdiction and is not subject to our oversight when it relates to their government function. They can subject themselves to the City's ordinance, if they choose, but they are voluntarily consenting to the City's regulations in that case.

Learners Wage

An employee who is a learner, as defined by the California Industrial Welfare Commission Order No. 4-2001, shall be paid no less than 85 percent of the applicable Minimum Wage for the first 160 hours of employment. Thereafter, the employee shall be paid the applicable minimum wage rate.

DISCUSSION:

Based on the direction staff received from the City Council at its priority setting session and input from key stakeholders, staff has prepared the following alternatives for City Council consideration, input, and further direction:

- **Alternative A:** Take no action at the local level with Half Moon Bay Employers adhering to the State's phased-in minimum wage schedule, which will reach \$15 an hour by 2022.
- **Alternative B:** Adopt a local minimum wage ordinance that increases the minimum wage in Half Moon Bay to \$15 per hour for all employers starting on July 1, 2020. Annual increases based on the Consumer Price Index would begin on January 1, 2021.
- **Alternative C:** Adopt a local minimum wage ordinance that increases the minimum wage in Half Moon Bay to \$15 per hour for all employers starting on January 1, 2021. Annual increases based on the Consumer Price Index would begin on January 1, 2022.
- **Alternative D:** Adopt a local minimum wage ordinance that increases the minimum wage in Half Moon Bay to \$14 per hour for all employers starting on July 1, 2020. This would be followed by an increase to \$15 per hour on January 1, 2021. Annual increases based on the Consumer Price Index would begin on January 1, 2022.

Options that other cities have explored and implemented include having separate wage tiers for non-profits vs all other businesses or different wage tiers for employers with 26 or more employees vs employers with 25 employees or less.

RECOMMENDATION:

Staff seeks direction from council on how to proceed with one of the proposed alternatives, or with any other feedback the council may have.

Attachments:

- A. Summary of Minimum Wage Ordinances in San Mateo County