



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### SUBJECT

Minimum Wage - Update on Regional Efforts to Reach \$15 by 2018

#### BACKGROUND

On October 28, 2014, Council adopted a Minimum Wage Ordinance to establish a minimum wage of \$10.30 per hour beginning on January 1, 2015 and starting January 1, 2016, and every January 1 thereafter, adjust the rate by an amount corresponding to the prior year's Consumer Price Index (CPI). Ordinance number 3047-14 states that future increases will be based upon the CPI for the U.S. city average for urban wage earners and clerical workers, consistent with the City of San Jose's ordinance. The City's minimum wage, as well as the minimum wage in San Jose, will remain at \$10.30 per hour on January 1, 2016 as the CPI decreased 0.3 percent over the previous year. Over this same period the Bay Area CPI increased by 2.5 percent.

In addition to adopting the City's Minimum Wage Ordinance, Council directed staff to work with neighboring cities, specifically the City of Mountain View, with the goal of reaching a \$15 per hour minimum wage by 2018. On April 21, 2015 and on September 15, 2015, staff provided Council with information only reports (RTC 15-0397 and RTC 15-0759) providing an overview of the proposed joint approach to be used to gather community input:

- Work in cooperation with Mountain View and other cities who may adopt the \$15 by 2018 goal
- Send joint letters to all mayors and city managers outlining the regional effort and seeking their support
- Encourage a regional approach to the minimum wage issue via the Cities Association of Santa Clara County
- Conduct targeted outreach to solicit input from the business community
- Post an Open City Hall (online survey) question on the issue
- Solicit feedback from the business community and the general public on the regional plan and the following incremental minimum wage increase proposal:
  - \$12.00 per hour minimum wage by July 1, 2016
  - \$13.50 per hour minimum wage by July 1, 2017
  - \$15.00 per hour minimum wage by July 1, 2018

#### EXISTING POLICY

##### **Ordinance 3047-14-Minimum Wage**

##### **Council 5.0 Long-term Advocacy Positions - Socio-Economic:**

**Policy 5.2.3** Supporting the quality of life in Sunnyvale, the City would support legislation to increase the current minimum wage or tie future increases to Consumer Price Index (CPI) or inflation.

## **ENVIRONMENTAL REVIEW**

N/A

## **DISCUSSION**

### Regional Efforts

The Cities of Sunnyvale and Mountain View worked together to accomplish both Councils' goal of gaining support for regional collaboration. Starting in January 2015 staff participated in monthly meetings with staff in Mountain View, Palo Alto, Santa Clara, Los Altos, and Santa Clara County sharing information and resources regarding the regional effort. However, none of these cities formally adopted the \$15 by 2018 incremental approach proposed by the cities of Sunnyvale and Mountain View.

On April 9, 2015, the Board of Directors of the Cities Association of Santa Clara County (Cities Association) met and discussed the Sunnyvale and Mountain View proposal for \$15 per hour by 2018. The Cities Association did not take any action at that time.

On June 1, 2015, a joint letter outlining Sunnyvale and Mountain View efforts was sent to all Santa Clara County mayors, with a copy to city managers asking that they take action to join the cities' efforts (Attachment 1). The joint letter was also submitted to the Cities Association for discussion at its June 10, 2015 meeting. Cities Association Subcommittee on Minimum Wage (Subcommittee) made a recommendation to promote regional consistency within Santa Clara County, pointing to the Sunnyvale and Mountain View proposal as the only existing effort towards regional consistency, and also recommended to not exempt tipped employees (Attachment 2). While the Cities Association supported a regional approach to the minimum wage, they did not endorse the Sunnyvale/Mountain View proposed incremental approach.

In August 2015, City Councils in Palo Alto and Santa Clara adopted minimum wage ordinances raising the minimum wage, in both cities, to \$11 per hour with annual CPI increases effective January 1, 2016. The adopted ordinances in Santa Clara and Palo Alto follow the San Jose, Mountain View and Sunnyvale model to tie future increases to the U.S. city average for urban wage earners and clerical workers; not the Bay Area CPI.

On September 3, 2015, City of San Jose Mayor Sam Liccardo was joined by officials from Campbell, Cupertino, Milpitas, Morgan Hill, Palo Alto, and Santa Clara, in announcing a collaborative effort in funding an economic study on raising the minimum wage and to analyze impacts on both residents and businesses. The proposal includes exploring some exemptions to the minimum wage, such as persons under the age of 18, tipped employees, and nonprofit staff. On September 10, 2015, the Cities Association unanimously endorsed the San Jose proposal and contributed \$1,000 towards the cost of the study. The San Jose City Council approved the regional study on September 15, 2015 and has begun the Request for Proposal (RFP) process to hire a consultant to conduct the study. Members of the South Bay Labor Council and the San Jose/Silicon Valley Chamber of Commerce will join other regional stakeholders in evaluating the RFP and selecting the consultant. The study is anticipated to be completed in February or March 2016.

In November 2014, voters in San Francisco approved Proposition J to increase the minimum wage to \$15 per hour incrementally by 2018. On June 2, 2015, the Emeryville City Council approved a

phased-in approach to reach \$15 per hour by 2018. Employers with more than 56 employees currently pay a minimum wage of \$14.44 per hour and will increase annually based on the CPI. Contra Costa County is currently considering a proposal for a phased approach to reach \$15 per hour by 2020. In 2014, Seattle implemented a \$15 per hour minimum wage by 2017, 2018, 2021, depending on the size of the business. Both the City and County of Los Angeles approved a \$15 per hour minimum wage by 2020 for businesses with more than 25 employees and by 2021 for businesses with less than 25 employees (Attachment 3).

On November 10, 2015, Mountain View City Council adopted a \$15 by 2018 minimum wage ordinance that raises the minimum wage to \$11 per hour on January 1, 2016, \$13 per hour on January 1, 2017, and \$15 per hour on January 1, 2018. Beginning on January 1, 2019, the minimum wage will adjust annually based upon the Bay Area CPI. This is a change from the U.S. CPI, which is used in the current ordinances in San Jose, Sunnyvale, Palo Alto, and Santa Clara.

### Statewide Efforts

Senate Bill (SB) 3, introduced by Senator Leno in December 2014, proposed to raise the State's current minimum wage of \$9 per hour to \$11 per hour effective January 1, 2016 and \$13 on January 1, 2017. Beginning on January 1, 2019, the minimum wage would be adjusted annually by the rate of inflation. Sunnyvale and Mountain View both submitted letters of support for the bill. SB 3 passed the Senate in June, but failed to advance from committee in the Assembly. It is unknown at this time whether SB 3 will be taken up in the forthcoming legislative session.

The Service Employees International Union-United Healthcare Workers West (SEIU-UHW) is currently collecting signatures to qualify for a statewide minimum wage ballot measure in November 2016. The proposed measure would raise the statewide minimum wage to \$11 per hour by 2017, with annual increases of \$1 until reaching \$15 per hour by 2021. SEIU-UHW officials have stated that they have gathered enough signatures to qualify for the ballot but plan to continue collecting signatures until their January 27, 2016 deadline.

The nonpartisan Legislative Analyst's Office issued a report on the SEIU-UHW initiative (Attachment 4). The report forecasted that a \$15 per hour Statewide minimum wage could encourage more people to enter the labor force, thus giving workers the ability to spend more money, but could also result in price increases, a reduction in businesses' profits, or a substitution away from low-wage workers (for example, businesses could use machines to automate tasks that would otherwise be performed by low-wage workers). The report asserted that the net fiscal effect of the measure was highly uncertain, but that it could reduce State income tax revenue and increase State and local sales tax revenue. The overall fiscal effects to State and local tax revenues were estimated to be a range, from a loss of hundreds of millions of dollars to a gain of more than \$1 billion.

### Community and Stakeholder Input

Staff made significant efforts to obtain input and feedback regarding the proposed incremental approach. Staff held:

- two meetings with business owners
- two communitywide meetings
- a meeting with nonprofits
- an online survey through Open City Hall
- two joint community meetings-one in Sunnyvale and one in Mountain View

Staff used various methods to communicate the availability of these input opportunities, including:

- Social Media (Nextdoor, Facebook, Twitter)
- Joint news release with Mountain View
- Sunnyvale Sun
- Website
- Postcards invitation sent to business owners
- Newsletters (Economic Development and Sunnyvale Chamber of Commerce)
- Personal outreach and information sharing with business organizations (Sunnyvale Downtown Associations, Sunnyvale Chamber of Commerce)
- Personal outreach and information sharing with Sunnyvale Community Services

Overall, the community feedback can be summarized into three major areas:

- Support a regional approach to minimum wage; not just Sunnyvale and Mountain View
- Cost of living is very high in this area - minimum wage is only one issue
- General support for a wage increase proposal with a longer phasing timeline such as reaching \$15 by 2020 instead of 2018

Business representatives from restaurants, hotels, and small independent retailers stated that employees need higher wages to live in this area. However, they also expressed concerns that their businesses would be severely impacted if the minimum wage increases to \$15 per hour by 2018. One long-time business owner stated she may need to close her restaurant as her rent has increased significantly and was not sure if she could continue to operate her business.

The majority of the business representatives recommend that Council consider the following suggestions:

- Consider reaching \$15 per hour minimum wage by 2020 instead of 2018
- Exclude directly tipped employees and new hires
- Approve different minimum wage rates for different sized businesses

Restaurant owners would like to see directly tipped employees exempted from the City's minimum wage. A few restaurant owners stated that their directly tipped employees can earn about \$30 per hour when tips are included and that increasing their wages is not fair to the rest of the staff. However, it should be noted that the State minimum wage law does not exempt tipped employees and therefore employers would still be required to pay the minimum wage under state law even if Sunnyvale adopted a tipped employee exemption.

Small business owners stated that they have very small profit margins and that other costs such as rent, worker's compensation insurance, and recent statewide legislation conferring mandatory sick leave benefits continue to increase dramatically. Small business owners would also support a minimum wage where smaller businesses pay a lower minimum wage than larger businesses. Business representatives also stated they needed additional time to fully plan for the new increase and would recommend waiting until at least 2020 to reach \$15 per hour minimum wage. Business representatives also would recommend that Council continue to work with other cities on a regional approach. They would support a countywide minimum wage.

Minimum wage advocates stated that there has been an increase in homelessness in the past 18 months in the region and that even working people are becoming homeless because they can't afford the high cost of living in Sunnyvale. Minimum wage advocates support a higher minimum wage as the working poor need higher wages to be able to afford rent, food, and transportation costs. Agencies, such as Sunnyvale Community Services, that provide food and emergency financial assistance have seen an increase in demand for their services due to the high cost of living in this area.

During the period of September 1, 2015 to November 1, 2015, staff solicited additional input regarding the \$15 by 2018 goal and schedule through Open City Hall, the City's community engagement tool. Forty-six people completed the survey and provided numerous comments. Of the respondents, about 44 percent supported the proposed schedule of reaching \$15 per hour minimum wage by 2018 and 56 percent were opposed (Attachment 5). About 35 percent of the respondents were Sunnyvale business owners, 40 percent were Sunnyvale residents, and 25 percent were employees of a Sunnyvale business or other.

### **FISCAL IMPACT**

There is no direct fiscal impact to the alternatives listed in this report. Should Council direct staff to return with a new ordinance to increase the City's minimum wage, staff would include the fiscal impacts of Council's direction at that time.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website. Staff also notified meeting attendees of Council's meeting date and sent e-mail reminders to stakeholders.

### **ALTERNATIVES**

1. Change the CPI in the City's current Minimum Wage Ordinance from the U.S. city average to the San Francisco Bay Area CPI average.
2. Direct staff to return to Council with an ordinance similar to the ordinance the City of Mountain View adopted November 10, 2015, but due to timing would have a later implementation date.
3. Direct staff to work with City of San Jose staff on the regional study and consider adjustments to the City's Minimum Wage Ordinance after a regional consensus is reached.
4. Keep the City's current minimum wage ordinance as is and take no further action.
5. Provide other direction.

### **STAFF RECOMMENDATION**

The City Council has already directed staff on this issue and staff has implemented that direction; however, several regional activities have occurred on setting alternative minimum wages, as well as the outcome of the reduced CPI for the U.S. city average, which provides the City Council with new information in the event that it would like to amend the original direction. Therefore, staff is merely checking in with the City Council to confirm its original direction or consider new direction to staff.

Considerable outreach was conducted to other cities in Santa Clara County to seek a regional approach, but no city agreed to adopt the minimum wage increase incremental approach proposed by the cities of Sunnyvale and Mountain View. Staff also sought community and business input, but

opinions differ significantly on this issue and consensus on the proposed incremental approach outlined in this report could not be reached.

Prepared by: Connie Verceles, Economic Development Manager

Reviewed by: Joan Borger, City Attorney

Reviewed by: Kent Steffens, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

### **ATTACHMENTS**

1. Joint Letter of Support for \$15 by 2018 Efforts
2. Cities Association of Santa Clara County Subcommittee on Minimum Wage Recommendation
3. Cities/Counties/Agencies Which Have or Are Considering a Minimum Wage Ordinance
4. Legislative Analyst's Office Report on Statewide \$15 Minimum Wage
5. City of Sunnyvale Open City Hall Results