



# City of Morgan Hill

## Legislation Text

File #: 15-870, Version: 1

### **CITY COUNCIL STAFF REPORT MEETING DATE: DECEMBER 16, 2015**

PREPARED BY: Kurt Lueneburger, Management Talent Exchange Program and Michelle Katsuyoshi, Human Resources Manager

APPROVED BY: City Manager

### **CITYWIDE MINIMUM WAGE COMMUNITY ENGAGEMENT PROCESS REPORT**

#### **RECOMMENDATION(S)**

1. Receive report on community outreach and engagement regarding minimum wage considerations, and
2. Direct staff to return to Council with the results of San Jose's minimum wage study.

#### **COUNCIL PRIORITIES, GOALS & STRATEGIES:**

##### **Ongoing Priorities**

Supporting youth

Fostering a positive organizational culture

Preserving and cultivating public trust

##### **2015 Focus Areas**

Community Engagement Effectiveness

#### **REPORT NARRATIVE:**

Currently, State law requires the minimum wage for all industries to be no less than \$9.00 per hour, with an increase to \$10.00 effective January 1, 2016. The Federal minimum wage for covered nonexempt employees has been \$7.25 per hour since July 24, 2009. Several Bay Area Cities including Berkeley, El Cerrito, Emeryville, Mountain View, Oakland, Palo Alto, Richmond, San Francisco, San Jose, Santa Clara, and Sunnyvale have adopted specific ordinance implementing varying minimum wage requirements above the Federal and State standards. An inventory of U.S. City and County Minimum Wage Ordinances maintained by the University of California Berkeley Center for Labor Research and Education may be accessed at:

<http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city-and-county-minimum-wage-ordinances/>.

On June 3, 2015, Council directed staff to prepare a resolution tying the City's minimum wage to the State's minimum wage plus Consumer Price Index (CPI), with the added amount to catch up by

January of 2017 to the City of San Jose's increased minimum wage. Additionally, Council was interested in the "Cities Association Subcommittee on Minimum Wage Report/Recommendation" (Cities Association Report) dated June 7, 2015 (attached).

The June 2015 Cities Association Report reviewed Santa Clara County municipalities' efforts with respect to local minimum wage ordinances and recommended following the goals of the Cities of Mountain View and Sunnyvale. Subsequent to the June 2015 Cities Association Report, both Cities have adopted ordinances that will increase the minimum wage to \$15.00 by 2018, with an annual adjustment based upon the San Francisco Bay Area CPI increase thereafter. Taking steps towards regional consistency both Cities adopted rates that will increase to \$11.00 per hour in 2016, \$13.00 per hour in 2017, and \$15.00 per hour in 2018. A rate of \$11.00 per hour in 2016 will match local minimum wage requirements implemented in Cities of Palo Alto and Santa Clara.

Since 2012, a voter-approved initiative has required City of San Jose employers to pay their employees an increased local wage for work performed in the City. The City of San Jose minimum wage ordinance also includes an annual adjustment based on the U.S. city average for urban wage earners and clerical workers CPI. Currently, the minimum wage rate in San Jose is \$10.30 per hour. Reliance on the national CPI instead of the regional San Francisco Bay Area CPI has received recent scrutiny.

On August 5, 2015, Council directed staff to initiate a citywide minimum wage engagement process.

On September 3, 2015, City of San Jose Mayor Sam Liccardo was joined by Morgan Hill Mayor Steve Tate and officials from Campbell, Cupertino, Milpitas, Palo Alto, and City of Santa Clara, in announcing a collaborative effort for economic study on raising the minimum wage and to analyze impacts on both residents and businesses. The proposal included exploring 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 \$1,000.00 towards the cost of the study. San Jose has begun the Request for Proposal process to hire a consultant to conduct the study. It is anticipated the study would be completed in early 2016.

Statewide, 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 \$11.00 per hour by 2017, with annual increase of \$1.00 until reaching \$15.00 per hour by 2021.

The nonpartisan Legislative Analyst's Office issues a report on the SEIU-UHW initiative (<http://www.lao.ca.gov/BallotAnalysis/Initiative/2015-032>). The report forecasted that a \$15.00 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 (e.g., automation of 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 estimate to be a range, from a loss of hundreds of millions of dollars to a gain of more than \$1 billion.

## ***Community Engagement***

Staff has completed a citywide community outreach and engagement process to meet Council direction. The outreach process included the following key components:

- Staff conducted focused outreach on the subject of minimum wage considerations at the Chamber of Commerce Economic Development Committee meeting held on September 24, 2015.
- A business forum was held at the Morgan Hill Community and Cultural Center to gather feedback from the business community on December 1, 2015.
- A second community forum was held at the Morgan Hill Community and Cultural Center to gather feedback from the general public living or working in the City on December 1, 2015.
- An online survey was offered to the public between November 8 and December 4, 2015.

These engagement opportunities were announced via the City website, targeted mailings to all active business license holders in the City, email distributions, social media, coordination with the Morgan Hill Chamber of Commerce, and media in the Morgan Hill Times.

At each meeting, staff gave a brief overview of recent developments in minimum wage actions at the State and local levels. Participants were asked to provide feedback in the open forums or through written comment cards. The events were attended by a total of 42 individuals. Most of the attendees had business interests and expressed a general opposition to an increased minimum wage in Morgan Hill. Commonly voiced concerns can be grouped into three general categories: 1) small business impacts; 2) regional differences; and 3) broader societal issues. A list of the questions, concerns, and thoughts voiced at the various open forums is included as an attachment to this report.

Business representatives expressed concerns that slim profit margins prevent many from comfortably accommodating any increase in labor costs, but they feared possible severe impacts from increases to \$15.00 per hour. Many believed that continued operation of their businesses at current levels of operation would be threatened. Often overlooked, larger increases in wages would result in cascading increases to costs of workers' compensation and Affordable Care Act requirements, all of which would reduce their ability to successfully sustain or grow their businesses. While raising prices would be an available option for some, small retailers and boutique businesses may be particularly hard hit as they compete with big-box stores and online options.

Another comment repeated among the business sector was that the lowest wage opportunities should be developed to provide individuals the framework to gain valuable work experience and training. Lowest wages should not be designed as "livable" wages. For reference, Massachusetts Institute of Technology (MIT) maintains a tool to calculate living wage for San Francisco-Oakland-Fremont, California, which may be accessed at <http://livingwage.mit.edu/metros/41860>. MIT estimates that a reasonable living wage for one adult living in the San Francisco Bay Area would equate to \$13.77 per hour, working full time; an adult with one child would need to earn \$27.91 per hour; and two adults (one working) with two children would need to earn \$28.85 per hour.

Wage increase opponents and supporters universally speculated that the high cost of housing in the region was the primary issue facing low-wage workers. Proponents of minimum wage increases shared personal stories of hardships they have encountered themselves or observed in their daily lives. Some questioned how community demographics and culture would evolve without changes to minimum wage standards. One thing was agreed upon, it was acknowledged that a diverse work force is needed to maintain Morgan Hill's character.

During the period of November 9 through December 4, 2015, the City sought additional community input on minimum wage considerations through an online, non-scientific survey. Citizens accessed the survey by visiting the City website or directly to the survey web link. The survey received broad participation with over 600 individual respondents. Complete survey results are included as an attachment to this report.

Nearly 70% of the respondents identified themselves as Morgan Hill residents or employees; about 25% of the respondents identified themselves as Morgan Hill business owners or managers. Business respondents were asked to clarify some details about their employee base in Morgan Hill. Almost 90% of the business respondents answered that their Morgan Hill business employs less than 50 individuals; nearly 84% specified less than 25 employees and almost half specified less than 5 employees. Almost all of the business respondents indicated they employed at least one individual at the current State minimum wage of \$9.00 per hour. Fifty-four business respondents stated that they operate a business in other cities besides Morgan Hill.

All participants were asked for their opinions on preferred minimum wage standards and possible consequences of increased minimum wages. Just over half of the respondents supported annual adjustment of minimum wages based on the CPI. Most respondents (37% to 43%) indicated a preference to keep minimum wages at State required levels and not join a regional effort to increase minimum wages. About 38% of respondents indicated support for increases to \$15.00 per our hour by 2018.

A majority of the respondents recognized that increases in minimum wages could increase prices, reduce worker hours, result in job losses, and delay future hiring. However, it was broadly acknowledged that increased wages could result in increased morale and reduced turnover.

#### Additional Considerations

Enforcement of local minimum wage requirements would be needed. The Cities of Mountain View, Santa Clara, and Sunnyvale utilize enforcement capabilities provided by the City of San Jose, currently the only jurisdiction with dedicated in-house compliance staffing. Cities that contract with San Jose report that results have been satisfactory. With more Cities requiring enforcement, discretion may be warranted to ensure that adequate capacity is available to handle potential increased responsibilities and workloads.

Staff continues to coordinate on a regular basis with other municipalities in the region which have enacted, are considering, or are monitoring local minimum wage increases including: Cities of Campbell, Los Altos, Milpitas, Monte Sereno, Mountain View, Palo Alto, San Jose, Santa Clara, and Sunnyvale; and the County of Santa Clara.

#### **COMMUNITY ENGAGEMENT: Consult**

As the purpose of this item is community engagement, a full summary of outreach and engagement is provided in the Report Narrative.

#### **ALTERNATIVE ACTIONS:**

Council may choose to provide further direction to staff based upon results of the community outreach and engagement process.

**PRIOR CITY COUNCIL AND COMMISSION ACTIONS:**

Prior City Council actions are included in the Staff Report narrative.

**FISCAL AND RESOURCE IMPACT:**

Work on this issue was not included in FY 15/16 workplans for Economic Development or Human Resources.

**CEQA (California Environmental Quality Act):**

Not a Project

**LINKS/ATTACHMENTS:**

1. Cities Association Subcommittee on Minimum Wage Report/Recommendation
2. <http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city->
3. <http://www.lao.ca.gov/BallotAnalysis/Initiative/2015-032>
4. <http://livingwage.mit.edu/metros/41860>
5. Minimum Wage Business Forum Comments
6. Minimum Wage Community Forum Comments
7. Minimum Wage Survey Results