



## Legislation Text

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Staff Report for Ordinance Adopting a Minimum Wage in San Leandro

### SUMMARY AND RECOMMENDATIONS

Per the direction provided by the City Council at the July 5, 2016 meeting, staff recommends the City Council consider the attached local minimum wage ordinance, to be effective July 1, 2017

### BACKGROUND & ANALYSIS

A potential San Leandro minimum wage ordinance went through extensive discussion by the City Council Finance Committee over the course of seven monthly meetings beginning in October, 2015. A wide range of studies and analyses were presented to the City Council Finance Committee and comments were provided by members of the public, community stakeholder groups, and committee members. A summary of the comments and analyses presented to the City Council Finance Committee was provided to the City Council at the June 13, 2016 publicly-noticed work session that was dedicated to discussing the possibility of a San Leandro minimum wage ordinance. During that work session, the City Council directed staff to develop and present for the Council's consideration a local ordinance that would accelerate implementation of the State's new minimum wage requirements at its next regular meeting on July 5, 2016. Following public testimony and discussion by the Council at the meeting, the City Council directed staff to make the following substantive revisions to the draft ordinance:

1. Include 'small and large employer' definitions, similar to how the statewide minimum wage law is crafted, and
2. Include a provision that grants small employers an additional year to implement the wage increases that are scheduled to begin for large employers on July 1, 2017

Per the direction of the Council, the proposed draft ordinance requires that, beginning July 1, 2017, large employers in the City of San Leandro must pay employees a minimum wage of no less than \$12.00 per hour. The minimum wage for large employers will then increase by one dollar per hour on July 1<sup>st</sup> of each subsequent year until achieving an hourly rate of \$15.00 per hour on July 1, 2020. Small employers will be allowed one additional year to implement all increases subsequent to July 1, 2017, as detailed in the following schedule:

<u>Minimum Wage</u>	<u>Large Employer Effective Date</u>	<u>Small Employer Effective Date</u>
\$12/hour	July 1, 2017	July 1, 2018
\$13/hour	July 1, 2018	July 1, 2019
\$14/hour	July 1, 2019	July 1, 2020
\$15/hour	July 1, 2020	July 1, 2021

“Small Employer” is defined as any person, corporate officers or executives, who hold a business license in San Leandro and who employs or exercises control over the wages, hours or working conditions of 25 or less employees.

“Large Employer” is defined as any person, corporate officers or executives who hold a business license in San Leandro who employs or exercises control over the wages, hours or working conditions of 26 or more employees, or who operate more than 10 establishments globally.

It should also be noted that if the statewide minimum wage for businesses of any size eventually meet or exceed the above thresholds, the local wage requirements outlined in the proposed ordinance will automatically sunset. Per the recently enacted statewide minimum wage law, all employers in California (regardless of size) are expected to fully achieve a \$15 per hour wage by January 1, 2023, unless the Governor delays the implementation schedule by initiating the “off-ramp” provisions in the adopted legislation.

#### Enforcement & Penalties for Violation

City staff recommends that enforcement of the ordinance be handled on a complaint-driven basis. The City has never before regulated wages on such a comprehensive and universal manner, so it is currently unknown precisely what level of staff support will be required to ensure compliance. For general estimation purposes, staff forecasts such enforcement costs could be approximately \$100,000 in the first year of implementation, which would decrease in subsequent years thereafter (related to an information campaign, continuing education, and some enforcement). For comparison purposes, the City of Berkeley currently has a full-time staff person to enforce its local minimum wage ordinance. The City of Emeryville contracts with a part time staff person to provide similar enforcement work for its own minimum wage law. As such, staff recommends conducting further analysis over the year ahead and building into the FY 2017-18 budget sufficient resources to handle the anticipated implementation and monitoring costs.

Should a local business be found out of compliance with the ordinance, the business would be required to pay back wages unlawfully withheld or underpaid, and the payment of a civil penalty of \$25.00 to each employee or person whose rights under this Chapter were violated for each day or portion thereof that the violation occurred or continued, along with fines imposed pursuant to other provisions outlined in the attached draft ordinance or as allowed by state law.

#### Impact on Mechanics at Local Auto Dealerships

At previous Finance Committee and City Council meetings to discuss the proposed minimum wage, the owner of a local auto dealership expressed concern that the proposed ordinance would impact mechanics who are guaranteed wages of two times the minimum wage rate. Based on subsequent information provided after those meetings, it is now the understanding of City staff that a local San Leandro minimum wage will, in fact, not have any impact in these situations.

#### Anticipated Impact on City Workforce & Budget

As of the date of this staff report, there are a number of part-time, non-permanent employees in the City’s Recreation & Human Services Department and Library Department who make less than the proposed minimum wage. Additionally, it is important to note that increasing the wage of these classifications will cause compaction to other classifications, thereby causing an increase in the hourly rate of pay for the Recreation Leader, Recreation Specialist, and Office Assistant classifications. Under current staffing levels, there are approximately 130 employees in these

classifications who would be impacted either directly or through compaction (with the majority of the impact resulting from compaction). The precise nature of wage increases resulting from compaction have not been determined at this time, so the projected fiscal impacts are subject to change.

Preliminarily, staff estimates the cumulative impact of these changes will result in the following increased costs to the General Fund, broken out by fiscal year. These estimated costs were calculated with a presumption that the new statewide minimum wage requirements will be implemented according to the schedule codified by state law. Therefore, the costs shown below are over-and-above the costs the City will incur as a result of the Statewide minimum wage.

<u>Implementation Year:</u>	<u>Estimated General Fund Cost:</u>
Year 1 (FY 2017-18)	\$100,000
Year 2 (FY 2018-19)	\$120,000
Year 3 (FY 2019-20)	\$120,000
Year 4 (FY 2020-21)	\$120,000

#### **Fiscal and Budget Impacts:**

In Fiscal Year 2017-18, staff estimates that salary increases to achieve compliance with the proposed ordinance would result in approximately \$100,000 in General Fund costs. For Fiscal Years 2018-19, 2019-20, and 2020-21, staff estimates these General Fund costs would be approximately \$120,000 each year. Implementation, monitoring and enforcement of the proposed ordinance could result in additional General Fund costs in the order of approximately \$100,000 in the initial year of implementation, which would decline in subsequent years of implementation. Staff will further analyze these costs over the year ahead and report back to Council with additional information at a subsequent meeting. Estimated implementation costs will be considered during the next biennial budget process for 2017-18 and 2018-19.

#### **ATTACHMENTS**

- Draft Minimum Wage Ordinance

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