

CITY OF FREMONT

RESPONSE TO REFERRAL ON MINIMUM WAGE ORDINANCE

July 17, 2018

Minimum Wage Laws May Overlap

- ▶ California has been setting minimum wages since 1916
 - Current minimum wage is \$10.50/hour for small businesses and \$11.00/hour for large businesses
 - Enforced through the Department of Industrial Relations
- ▶ Federal Government established a national minimum wage as part of the Fair Labor Standards Act (FLSA) in 1938
 - FLSA minimum wage is not adjusted frequently: \$7.25/hour since 2009
- ▶ Local entities may also enact minimum wage laws
- ▶ Employers are subject to all minimum wage laws effective within a jurisdiction
 - The employer must follow the strictest standard – the standard that is most beneficial to the employee

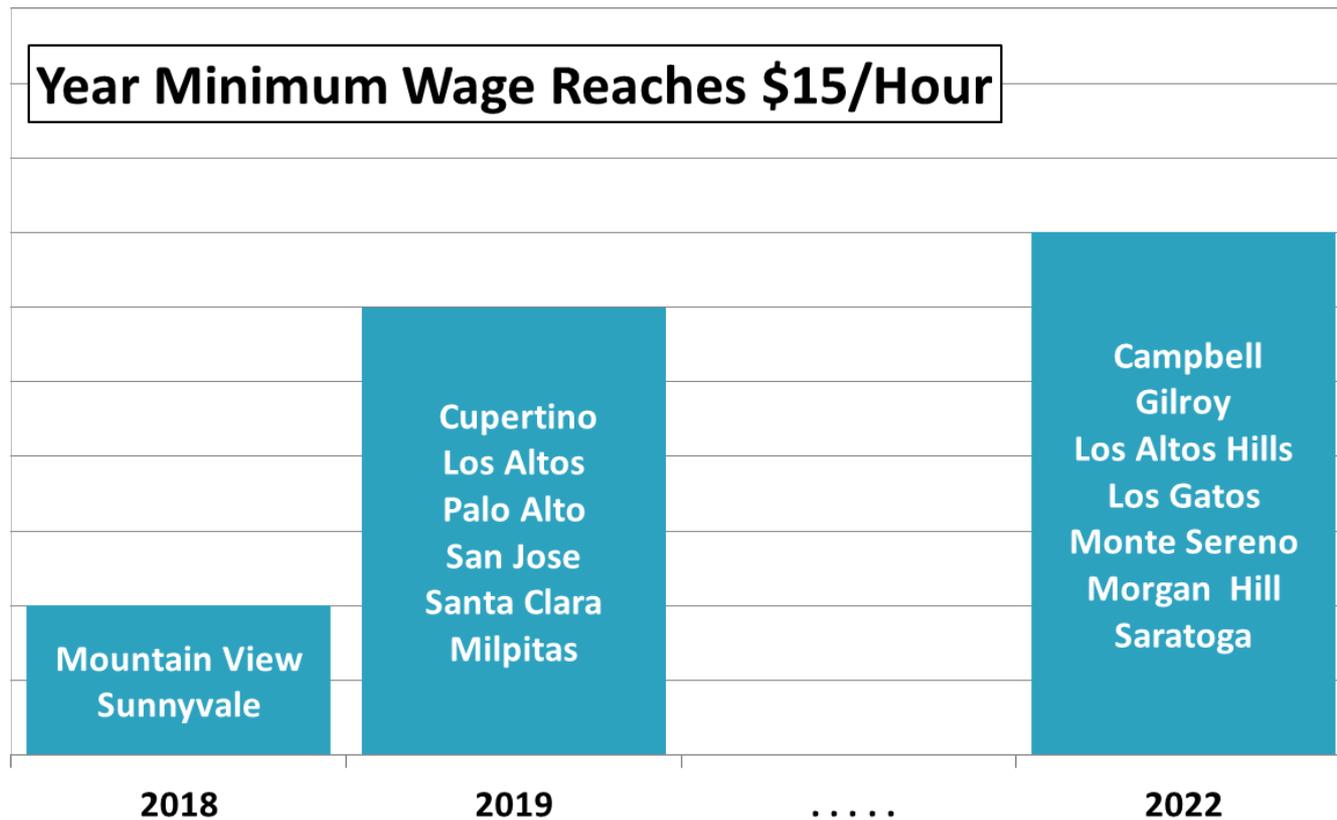
California Law Mandates Rising Wages

- ▶ In 2016, the State adopted a phased increase in the minimum wage from \$10/hour to \$15/hour over seven years
- May be temporarily suspended if employment or retail sales decline, or if the State budget would go into deficit

Effective Date (January 1)	Small Employers (25 or Less Employees)	Large Employers (26 or More Employees)
2017	\$10.00	\$10.50
2018	10.50	11.00
2019	11.00	12.00
2020	12.00	13.00
2021	13.00	14.00
2022	14.00	15.00
2023	15.00	Based on CPI

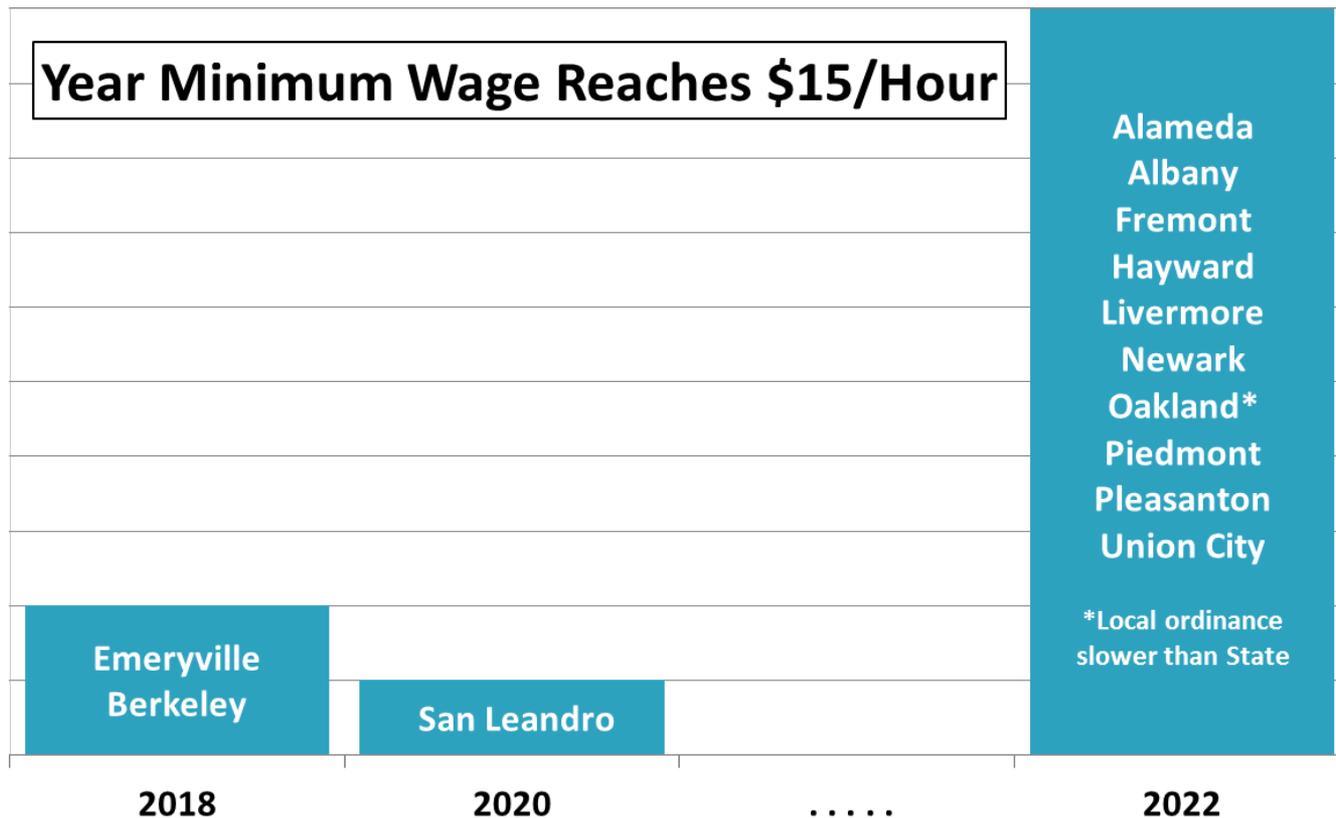
Local Ordinances – Santa Clara County

- ▶ Just over half of the cities in Santa Clara County have adopted local minimum wage ordinances reaching \$15/hour before the State (all in 2016 or earlier except Milpitas)



Local Ordinances – Alameda County

- ▶ Three cities in Alameda County have adopted local minimum wage ordinances reaching \$15/hour before the State (all in 2016 or earlier)



Local Ordinance Implementation

- ▶ Other cities in the Bay Area have local ordinances reaching \$15/hour earlier than the State
 - 2018 – San Francisco
 - 2019 – El Cerrito, Richmond, San Mateo
- ▶ Local ordinances typically phase increases over several years in annual steps ranging between \$1 and \$1.50
 - Exceptions include Sunnyvale (\$11 to \$15 in two annual \$2 steps) and Milpitas (two \$2.50 steps over one year)
- ▶ Three years remain until the State reaches \$15/hour
 - 2019 – \$4 step (36%) for small and \$3 (25%) for large employers
 - 2020 – two steps averaging \$2 (17%) for small and \$1.50 (12%) for large employers

Impact on Minimum Wage Employees

- ▶ Approximately 1/3 of employment in Silicon Valley consists of jobs at or near the minimum wage
 - Food service, retail sales, janitorial and landscape maintenance, security guards, personal services, home health aids, in-home senior care, childcare workers, homeless services
- ▶ Households with workers receiving a pay increase will experience a higher level of economic self-sufficiency
 - Assist some families in remaining housed and facilitate employment by helping offset childcare expenses
 - Higher pay could exclude some single-earner households from government assistance programs
- ▶ Not a substitute for more affordable housing
 - At \$15 per hour, a household with two full-time workers would still be significantly rent burdened in Fremont's housing market

Impact on Minimum Wage Employers

- ▶ Response to a significant wage increase will depend on an employer's business model and operating environment
 - Increase revenue: raise prices
 - Reduce expense: decrease worker hours, eliminate positions
- Non-profit organizations may have less ability to pass along increased costs to customers, donors, or grantors
- Low-margin businesses in competitive markets that rely heavily on minimum wage labor may not be able to continue operating
- ▶ Could hamper City efforts to retain businesses or attract new retail and restaurants
 - A local minimum wage ordinance signals Council's willingness to impose additional regulation on the business community
 - Chamber of Commerce survey suggests most businesses oppose a local ordinance

Impact on City Services to the Community

- ▶ Majority of City's 688 part-time employees provide recreation or parks maintenance services
 - Wage levels range from \$11/hour to \$17/hour
 - Recreation Division part-time wages for 2018/19 total \$2.7 million
- ▶ State minimum wage schedule will increase Recreation Division costs \$107,000 annually between 2019 and 2022
 - Relatively modest cost increases can be passed along to participants through fee adjustments
- ▶ Accelerating to \$15/hour in 2019 would add \$500,000 of additional costs in 2018/19
 - To offset, the General Fund would need to subsidize the Recreation Cost Center for several years until fee revenue can catch up
 - Raising recreation fees more rapidly would reduce the subsidy

City is Responsible for Ongoing Administration and Enforcement

- ▶ Administration activities include outreach and education for businesses and employees
 - Produce workplace posters in multiple languages showing the current minimum wage and providing contact information for questions and reporting complaints
- ▶ Enforcement activities involve answering queries, investigating complaints, and holding administrative and appeal hearings
 - Most cities are contracting with the City of San Jose for enforcement
 - Some cities have staffed this function internally
- ▶ Annual costs could range from \$15,000 (contract out) to \$180,000 (staff internally)

Options for City Council Action

- ▶ Continue to operate under the State's increasing minimum wage schedule
 - \$15/hour for all employees by January 2023
- ▶ Direct staff to conduct public outreach and community meetings to receive resident and local business feedback
 - Staff would return to Council to present results and request further guidance
- ▶ Direct staff to develop an accelerated minimum wage schedule and local minimum wage ordinance
 - Staff would return to Council to present a draft schedule and ordinance
 - Council may need to provide further guidance on specific timing or policy alternatives