

BUSINESS OF THE COUNCIL OF THE CITY OF HALF MOON BAY

AGENDA REPORT

For meeting of: **February 20, 2024**

TO: Honorable Mayor and City Council

VIA: Matthew Chidester, City Manager

FROM: Lisa Rossi, Administrative Services Director
Bryan Lopez, Senior Management Analyst

TITLE: MINIMUM WAGE ORDINANCE AMENDMENT OPTIONS

RECOMMENDATION:

Receive an update regarding amendment options to the City’s minimum wage ordinance adopted on February 4, 2020, and provide direction for possible modifications.

FISCAL IMPACT:

There is no fiscal impact associated with this report. Future fiscal impacts will vary depending on any proposed amendments to the ordinance.

STRATEGIC ELEMENT:

This update supports the *Healthy Communities and Public Safety* and *Inclusive Governance* elements of the Strategic Plan.

BACKGROUND:

To address one of their five priorities for FY 2019-20, the City Council adopted Ordinance No. 2020-01 on February 4, 2020, establishing a local minimum wage in Half Moon Bay of \$15 per hour. Effective January 1, 2022, all businesses in Half Moon Bay are subject to a City-wide minimum wage that started at \$15 per hour, increasing annually based on the Consumer Price Index for San Francisco-Oakland-San Jose from the Bureau of Labor Statistics (“CPI”). The current minimum wage effective January 1, 2024, is \$17.01 per hour and does not differentiate based on business size or type.

During the August 15, 2023, Council meeting, staff were asked to research and begin outreach on possible amendments to the minimum wage ordinance, including increasing the minimum wage to \$19.00 per hour or more. During the discussion, the Council stated that the City needed to stay on top of the minimum wage and bring the topic back for consideration as the cost of living in Half Moon Bay continues to rise for families. They shared concerns that using the CPI to calculate the annual increase was not bringing the minimum wage near a living wage fast enough and it was imperative for the Council to take action to assist the struggling families in Half Moon Bay. At

a follow up meeting on November 30, 2023, the Council was presented with an update on options for amending the ordinance, and the direction staff was taking to educate the community and gather information related to amendment options. Following additional questions, staff were directed to bring back several options to the Council at a follow-up meeting.

DISCUSSION:

Based on previous Council feedback, Staff researched available options for increasing the minimum wage while also ensuring that measures are in place to prevent erosion of wages despite rising inflation. Common options include:

- Increasing minimum wage in steps over a period of time
- Splitting the minimum wage between small and large businesses or by business types
- Implementing CPI caps
- When implementing CPI caps also implementing a carryover provision
- Increasing the minimum wage fully as soon as is reasonably practicable
- A mix of the above options

Options

Increasing the minimum wage in steps over a period of time provides time for businesses to absorb and budget for potentially large employee expense increases. Businesses generally can absorb employee expense increases over time when given time to plan and price their goods and services accordingly. Most jurisdictions choose this or a variation of this method when increasing the minimum wage.

Separating the minimum wages by small and large businesses or by business type usually goes along with the stepped approach to raising the minimum wage and has the benefit of delaying potentially large cost increases over a longer period of time. This approach generally will extend the time and the steps for smaller businesses where at a point in the future, the wages would eventually equal the same minimum wage as larger businesses. This reduces the pressure on smaller businesses and sensitive industry types and reduces the potential for business failure that might result from large expense increases over too short of a period of time. This method is also quite a common approach when implementing minimum wage increases.

A CPI cap is used to smooth potential major employee expense increases during high inflationary years. The cap provides a maximum possible wage increase and allows businesses to budget for a maximum possible increase each year ensuring that they do not experience expenses that could not be planned for. CPI caps alone are susceptible to inflationary erosion in years that exceed the cap though generally CPI caps are usually higher than the average CPI increases.

A CPI carryover provision is used to offset potential inflationary erosion that can occur with CPI caps alone. When a CPI carryover provision is built into a minimum wage ordinance it ensures that the minimum wage does not erode with inflation over time by applying any excess CPI percentage to subsequent years. Generally, catch-up provision carryovers will continue to be added to following years until the actual CPI and the cap-adjusted CPI are equivalent. The

following year after a carryover is exhausted, the minimum wage would return to the actual CPI, provided it is below the set CPI cap.

For example - in the case of a high CPI year such as occurred in 2022 with a 5.7% CPI, in cities with a 3.5% cap, 2.2% of that would have been carried forward to 2023 limited to the same 3.5% total CPI increase. Since 2023 has a 3.4% CPI increase, the carryover would bring the total minimum wage increase to 3.5% leaving 2.1% remaining carryover for 2024 and potentially to future years until exhausted.

The attached Minimum Wage Comparison Table (Attachment 1) compares the 2023/24 minimum wages across different jurisdictions in the greater Bay Area. The table also indicates some differences among minimum wage ordinances.

Minimum Wage and Potential Unexpected Consequences

Staff has been working with the San Mateo County Human Services Agency and Health System to understand how raising minimum wage may impact eligibility for public assistance programs such as Medi-Cal, General Assistance, housing support, etc. However, these impacts are not straightforward and may depend on several factors, including the program type, household size, income and asset levels, and immigration status. The criteria for many programs are based on a nationwide standard, which doesn't take into account the disproportionately high cost of living in the Bay Area. We also are unsure of the number of households in Half Moon Bay that received public assistance.

We have been informed that based on current criteria, Half Moon Bay's minimum wage (along with many other cities) disqualifies some households from certain benefits. Additional increases to the minimum wage would likely disqualify additional households from certain public assistance programs, but the costs of those benefits are not easily determined. We are continuing to work with the County and provide information as it becomes available. The County and others are also advocating for changes to federally funded assistance programs, to better reflect eligibility based on our local cost of living.

Local Business Demographics

Also, at the November 30, 2023, Council meeting, staff were asked to research businesses and the number of employees within the City limits to assist Council in assessing the implications of raising the minimum wage. Based on information prepared by HdL (the City's business license operator), the following business types have shown to have the highest employee count:

Category	# Businesses	#Employees (Total)	# Employees (Average)
RETAIL - FOOD STORE	19	327	17
SERVICE - LODGING	11	377	34
RETAIL - RESTAURANTS	52	576	11
AG plus NURSERIES	9	98	11

According to business license records, there are a wide range of employees within different business categories, ranging from 1 employee to 275. There are approximately 134 businesses and 317 employees in total located south of Highway 92 on Main Street, which is considered the main business hub. There are many different types of businesses present, but the majority are restaurants. And although there are no formal statistics, research shows that many businesses on Main Street are women-owned.

Enforcement

Enforcement of minimum wage violations are generally handled by the State of California’s Division of Labor Standards Enforcement (DLSE), or the San Mateo County District Attorney’s Office. The City of Half Moon Bay facilitates education of the minimum wage and any changes based on the ordinance. Complaints initiated with the City are referred to the state or County for enforcement.

The County is also creating the Office of Labor Standards Enforcement to educate and enforce minimum wage laws for the County. The County is determining the scope of the office and if support will also extend to the cities within the County. The new office is expected to be up and running by July 1, 2024, with an initial focus on education.

Attachments:

Minimum Wage Comparison Table - San Mateo County

**Attachment A:
Minimum Wage Ordinance Comparison Tables - San Mateo County**

Minimum Wage Increase Methods/Possible Options				
Year	A) Immediate	B) Stepped	C1) Split Small	C2) Split Large
2024.0	\$17.01	\$17.01	\$17.01	\$17.01
2024.5	\$20.00	\$18.71	\$17.01	\$18.71
2025	Adj by CPI	\$20.00	\$18.71	\$20.00
2026	Adj by CPI	Adj by CPI	\$20.00	Adj by CPI
2027	Adj by CPI	Adj by CPI	Adj by CPI	Adj by CPI

* Steps use a 10% increase per step. Small Business delays first step until 2025

Minimum Wage CPI Increase Assuming Method B				
Year	Wage	CPI	CPI Capped @ 3.5%	Carryover
2024.0	\$17.01	N/A	N/A	N/A
2024.5	\$18.71	N/A	N/A	N/A
2025	\$20.00	N/A	N/A	N/A
2026	\$20.70	5.10%	3.50%	1.60%
2027	\$21.42	3.20%	3.50%	1.30%
2028	\$22.17	3.00%	3.50%	0.80%
2029	\$22.93	2.60%	3.40%	0.00%

*CPI percentages are not actuals and are used for illustrative purposes. Caps are an example based on common caps used by the State and many jurisdictions.

2023 Min Wage		2024 Min Wage	
Average	\$16.95	Average	\$17.51
Median	\$16.75	Median	\$17.35
High	\$23.15	High	\$23.94
Low	\$15.50	Low	\$16.00
Half Moon Bay	\$16.45	Half Moon Bay	\$17.01

Cities Differentiating by Business Type/Size		
City Name	Method	Current Status
Oakland	Industry Type	Differentiated
Emeryville	Business Size	Equalized
Sonoma	Business Size	Differentiated
Petaluma	Business Size	Equalized
Santa Rosa	Business Size	Equalized
Fremont	Business Size/Type	Equalized/Non-Profits Exempted
Hayward	Business Size	Differentiated
Novato	Business Size	Differentiated

Greater Bay Area City Wages by Year			2023 CPI = 3.40%	
Locality:	Adjusts Annually & Method	2023	2024	
Oakland, CA (Measure Z - Hotel Min Wage Without Health Benefits)	Annually by CPI	\$23.15	\$23.94	
Emeryville, CA large & small businesses	Annually by CPI	\$18.67	\$19.30	
Mountain View, CA	Annually by CPI	\$18.15	\$18.75	
Berkeley, CA	Annually by CPI	\$18.07	\$18.68	
San Francisco, CA (July 1st - June 30th)	Annually by CPI	\$18.07	\$18.68	
Sunnyvale, CA	Annually by CPI	\$17.95	\$18.55	
Oakland, CA (Measure Z - Hotel Min Wage with Health Benefits)	Annually by CPI	\$17.37	\$17.96	
El Cerrito, CA	Annually by CPI	\$17.35	\$17.92	
Palo Alto, CA	Annually by CPI but not greater than 5.0%	\$17.25	\$17.80	
Cupertino, CA	Annually by CPI	\$17.20	\$17.78	
Milpitas, CA	Annually by CPI	\$17.20	\$17.78	
Los Altos, CA	Annually by CPI	\$17.20	\$17.75	
Santa Clara, CA	Annually by CPI	\$17.20	\$17.75	
Redwood City, CA*	Annually by CPI max 5% rounded to 5 cents	\$17.00	\$17.70	
Sonoma, CA large businesses (26 or more employees)	Annually by CPI but not greater than 3.5%	\$17.00	\$17.58	
San Jose, CA	Annually by CPI max 5% rounded to 5 cents	\$17.00	\$17.55	
Petaluma, CA large & small businesses	Annually by CPI	\$17.06	\$17.45	
Santa Rosa, CA large & small businesses	Annually by CPI	\$17.06	\$17.45	
Fremont, CA large & small businesses	Annually by CPI Non-Profit exempt	\$16.80	\$17.37	
Belmont, CA*	Annually by CPI	\$16.75	\$17.35	
San Mateo, CA*	Annually by CPI max 3.5% w/catch up clause rounded to 5 cents	\$16.75	\$17.35	
South San Francisco, CA *	Annually by CPI	\$16.70	\$17.25	

East Palo Alto, CA*	Annually by CPI	\$16.50	\$17.10
Alameda, CA	Annually by CPI	\$16.52	\$17.08
San Mateo County, CA*	Annually by CPI	\$16.50	\$17.06
Burlingame, CA*	Annually by CPI	\$16.47	\$17.03
Half Moon Bay, CA*	Annually by CPI	\$16.45	\$17.01
Foster City, CA*	Annually by CPI but not greater than 3.0%	\$16.50	\$17.00
Hayward, CA large businesses (26 or more employees)	Annually by CPI but not greater than 5.0%	\$16.34	\$16.90
San Carlos, CA*	Annually by CPI But not greater than 3.5%	\$16.32	\$16.87
Novato, CA very large employer (100 or more employees)	Annually by CPI but not greater than 3.5%	\$16.32	\$16.86
Richmond, CA	Annually by CPI (-\$1.50) for Employer provided Health Plans	\$16.17	\$16.72
Menlo Park, CA*	Annually by CPI but not greater than 3.0%	\$16.20	\$16.70
Daly City, CA*	Annually by CPI	\$16.07	\$16.62
Novato, CA large employer (26 to 99 employees)	Annually by CPI but not greater than 3.5%	\$16.07	\$16.60
Sonoma, CA small businesses (25 or fewer employees)	Annually by CPI but not greater than 3.5%	\$16.00	\$16.54
Oakland, CA (Measure FF - General)	Annually by CPI	\$15.97	\$16.51
Novato, CA small employer (25 or fewer employees)	Annually by CPI but not greater than 3.5%	\$15.53	\$16.04
Hayward, CA small businesses (25 or fewer employees)	Determined by State of California	\$15.50	\$16.00
San Leandro, CA	Determined by State of California	\$15.50	\$16.00