

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: RAISSA DE LA ROSA  
ECONOMIC DEVELOPMENT DIVISION DIRECTOR  
PLANNING & ECONOMIC DEVELOPMENT DEPARTMENT  
SUBJECT: CONSIDERATION OF AMENDMENT BY ORDINANCE OF THE  
IMPLEMENTATION DATE AND MODIFICATION OF THE  
ADJUSTMENT DATES FOR INCREASES OF THE CITY OF  
SANTA ROSA MINIMUM WAGE CHAPTER 10-45 OF THE  
SANTA ROSA CITY CODE IN RESPONSE TO IMPACTS TO  
BUSINESSES CAUSED BY COVID-19

AGENDA ACTION: URGENCY ORDINANCE

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RECOMMENDATION

It is recommended that the Council consider whether to (a) maintain the current implementation date of the minimum wage requirements of City Code Chapter 10-45 (currently set for July 1, 2020); or (b) by urgency ordinance, delay the implementation date of Minimum Wage requirements by six months.

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EXECUTIVE SUMMARY

In response to the economic distress caused by the COVID-19 pandemic, the City's Economic Recovery Taskforce identified implementation of Santa Rosa's new minimum wage ordinance as a potential issue to address. Two options are presented to Council for consideration: a) take no action, leaving the minimum wage implementation date as July 1, 2020; b) delay implementation by six months via an urgency ordinance requiring five votes to approve. The Economic Recovery Task force reviewed and discussed this issue and ultimately recommended no action.

Pursuant to request, staff has prepared a draft ordinance for the Council's consideration. The draft ordinance proposes to delay the July 1, 2020, implementation of Santa Rosa's localized minimum wage standards and adjust the subsequent increase for small businesses by six months each. Specifically, the implementation date for a \$15.00 large business minimum wage and a \$14.00 small business minimum wage would move to January 1, 2021. Thereafter, the small business minimum wage would adjust to \$15.00 per hour on July 1, 2021. These adjustments would be in keeping with the staggered increases in the original ordinance and are designed in a manner to gain

CONSIDERATION OF AMENDMENT BY ORDINANCE OF THE IMPLEMENTATION DATE AND MODIFICATION OF THE ADJUSTMENT DATES FOR INCREASES OF THE CITY OF SANTA ROSA MINIMUM WAGE CHAPTER 10-45 OF THE SANTA ROSA CITY CODE IN RESPONSE TO IMPACTS TO BUSINESSES CAUSED BY COVID-19 PAGE  
PAGE 2 OF 8

parity with regional jurisdictions that have already implemented an expedited minimum wage ordinance. To give employers and the California Labor Commissioner sufficient notice of this change, if the Council decides to move forward with an amendment, timing dictates this option be presented as an urgency ordinance.

## BACKGROUND

On October 22, 2019, Santa Rosa City Council adopted Ordinance No. ORD-2019-014 establishing a local minimum wage for the City of Santa Rosa. Per the ordinance, beginning on July 1, 2020, employers with 26 or more employees (large businesses per State standards) would pay at least \$15.00 per hour, and those employers with 25 or fewer employees (small businesses) would pay at least \$14.00 per hour. Starting January 1, 2021, minimum wage for both small and large businesses would be \$15.00 per hour plus an adjustment based on the Bay Area Consumer Price Index (CPI-W-BA).

On March 17, 2020, the County of Sonoma Health Officer issued a shelter-in-place order which required the closure of any business or service deemed non-essential to the health and welfare of the community as it relates to COVID-19. Beyond healthcare, essential infrastructure, public safety and government services, essential businesses were allowed to remain open under modified operations, including food suppliers such as grocers and mixed retail that sell food and beverage products, and restaurants and other such facilities for drive-through, delivery or carry out. Despite and beyond these exceptions, the business community is facing severe economic injury. Businesses small and large have reported a collapse of their revenue streams, reduced sales, and the need to reduce workforce hours or lay off staff completely. While sales have dramatically decreased, fixed costs to business such as rent, healthcare, outstanding loans, and taxes remain, even if timing may be modified.

On April 10, 2020, the newly created Economic Recovery Taskforce, part of the City's COVID-19 Recovery Framework, held its first meeting with the Minimum Wage Ordinance one of the first agenda items. In recognition of the dire economic situation for both business and the workforce, options identified for discussion were:

- Keep the ordinance as is with phased implementation for large and small employers starting July 1, 2020;
- Modify the ordinance implementation timeline;
- Rescind the ordinance and revert to the State timeline.

Considerations informing the discussion included an interest in adhering to the intentions behind the original ordinance including addressing cost of living in Sonoma County and Santa Rosa's workforce retention/attraction competitiveness, and the impact on the local economy in the short- and long-term from both a business and workforce perspective. Further framing the discussion was the uncertainty of the duration of the current health orders, what the reopening of the economy will look like

CONSIDERATION OF AMENDMENT BY ORDINANCE OF THE IMPLEMENTATION DATE AND MODIFICATION OF THE ADJUSTMENT DATES FOR INCREASES OF THE CITY OF SANTA ROSA MINIMUM WAGE CHAPTER 10-45 OF THE SANTA ROSA CITY CODE IN RESPONSE TO IMPACTS TO BUSINESSES CAUSED BY COVID-19 PAGE  
PAGE 3 OF 8

understanding that business operations and social interactions will be modified for an additional unknown period. The result of this and subsequent discussions were to recommend the following for Council to consider:

- Take no action, leaving Santa Rosa's minimum wage implementation date as July 1, 2020;
- Adopt an urgency ordinance delaying the implementation date to a new set date (see attached) – this action would require five votes to pass.

### PRIOR CITY COUNCIL REVIEW

There was no previous Council review specific to modifying ORD-2019-014, however prior City Council review for the creation of that ordinance was as follows:

On July 16, 2019, City Council held a minimum wage study session to review information and provide direction. Staff was directed by the majority of Council to move an ordinance forward. Clarity was requested or direction given regarding annual adjustment indices (CPI), data linked to measuring effectiveness of the ordinance, consistency with SB 3 and other county-wide minimum wage ordinances, and compliance/enforcement issues.

On October 1, 2019, City Council held a public hearing and introduced an ordinance to add Chapter 10-45 et seq. to the Santa Rosa City Code to establish minimum wages to be paid by employers.

On October 22, 2019, the City Council unanimously adopted Ordinance No. ORD-2019-014 adding Chapter 10-45 et seq. to the Santa Rosa City Code establishing a local minimum wage to be paid by employers in Santa Rosa.

### ANALYSIS

If Council decides to take no action today and leave the minimum wage implementation date as outlined in ORD-2019-014, staff would finalize and release the notification mailers to all businesses currently listed as having a business tax certificate in Santa Rosa, and would initiate a marketing campaign for the five weeks remaining before the July 1 start date.

Should Council opt to adopt an urgency ordinance, this action would require a minimum of five votes to pass. The attached draft ordinance (provided in both redline and clean version) outlines a delay to ORD-2019-014 by six months, moving the start date from July 1, 2020, to January 1, 2021. Under the draft ordinance, large businesses would move to the \$15.00/hour minimum wage as of January 1, 2021. Small businesses would move to a \$14.00/hour minimum wage on January 1, 2021, and then to \$15.00/hour on July 1, 2021, in keeping with the six month step-up in the original

CONSIDERATION OF AMENDMENT BY ORDINANCE OF THE IMPLEMENTATION DATE AND MODIFICATION OF THE ADJUSTMENT DATES FOR INCREASES OF THE CITY OF SANTA ROSA MINIMUM WAGE CHAPTER 10-45 OF THE SANTA ROSA CITY CODE IN RESPONSE TO IMPACTS TO BUSINESSES CAUSED BY COVID-19 PAGE PAGE 4 OF 8

ordinance. See Chart 1 below for a comparison of the State, ORD-2019-014, and the draft ordinance. Like the existing ordinance, the draft ordinance would adjust the minimum wage to reflect the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the San Francisco-Oakland-Hayward Consolidated Metropolitan Statistical Area, beginning on January 1, 2021.

According to the US Bureau of Labor Statistics (BLS) the impact of the current pandemic on CPI data was relatively minor for March 2020 data published on April 10, 2020. It should be noted, however, that BLS market basket data collection began shifting in March and, while they are anticipating some additional collection disruptions for April, it is not expected to fail the adequacy ratio data-quality standard. See Chart 2 below for April 2019 to March 2020 CPI-W rates.

Chart 1

Implementation Date	State Law		City of Santa Rosa (SAMPLE DELAY)		City of Santa Rosa (ORIGINAL)	
	Large Business	Small Business	Large Business (26+ employees)	Small Business (<25 employees)	Large Business (26+ employees)	Small Business (<25 employees)
January 1, 2019	\$12.00	\$11.00	\$12.00	\$11.00	\$12.00	\$11.00
January 1, 2020	\$13.00	\$12.00	\$13.00	\$12.00	\$13.00	\$12.00
<b>July 1, 2020</b>	----	----	---	---	\$15.00	\$14.00
January 1, 2021	\$14.00	\$13.00	\$15.00 + CPI	\$14.00 + CPI	\$15.00 + CPI	\$15.00 + CPI
<b>July 1, 2021</b>	----	----	---	= to lrg biz	----	----
January 1, 2022	\$15.00	\$14.00	CPI	CPI	CPI	CPI
January 1, 2023	CPI	\$15.00	CPI	CPI	CPI	CPI
January 1, 2024	CPI	CPI	CPI	CPI	CPI	CPI
	US CPI-W (no more than 3.5%)	US CPI-W (no more than 3.5%)	SF-Oak-Hay CPI-W	SF-Oak-Hay CPI-W	SF-Oak-Hay CPI-W	SF-Oak-Hay CPI-W

CONSIDERATION OF AMENDMENT BY ORDINANCE OF THE IMPLEMENTATION DATE AND MODIFICATION OF THE ADJUSTMENT DATES FOR INCREASES OF THE CITY OF SANTA ROSA MINIMUM WAGE CHAPTER 10-45 OF THE SANTA ROSA CITY CODE IN RESPONSE TO IMPACTS TO BUSINESSES CAUSED BY COVID-19 PAGE PAGE 5 OF 8

Chart 2

	US CPI-W	Bay Area CPI-W
Apr-19	2%	3.7%
May-19	1.8%	
Jun-19	1.6%	3%
Jul-19	1.8%	
Aug-19	1.7%	2.5%
Sep-19	1.7%	
Oct-19	1.8%	3.0%
Nov-19	2.1%	
Dec-19	2.3%	2.2%
Jan-20	2.5%	
Feb-20	2.3%	2.5%
Mar-20	1.5%	

The changes outlined in the draft ordinance would keep Santa Rosa’s minimum wage ahead of the State’s minimum wage as intended. Looking only at the \$2.00/hour difference, and not accounting for compaction, payroll taxes, CPI, or other elements that affect per employee costs, a six-month delay in increasing minimum wage assuming a 30-hour work week is approximately \$1,560.00 per minimum wage employee. As an example, a large business with fifteen of its employees at minimum wage could see a savings of \$23,400.00 over six months. Small businesses would see that same savings in the initial six months, with additional savings resulting from the subsequent six month delay in the final step increase. Thus for small businesses, the delay in the increase from \$12.00/hour to \$14.00/hour for the first six months (July 1, 2020 to January 1, 2021), plus the delay in the increase from \$14.00/hour to \$15.00/hour for the following six months (January 1, 2021 to July 1, 2021), the savings would be \$2,340 per minimum wage employee.

Based on information received from small businesses unrelated to minimum wage implementation questions, their ability to pay rent and payroll are the two priority stressors for employers at this time. Specifically, the various federal and state assistance funds and other small business support monies are helpful but have been inconsistent, arduous to access, slow to receive, and inadequate in amount assuming success in receiving anything. Additionally, where business may lay off or furlough staff, options to address rent obligations are extremely limited. With respect to the rent obligation for employers reliant on a physical space – e.g. restaurants, retailers, and other service providers – the most commonly expressed concern is if they lose their space they lose their business, and the likelihood of having the capital to secure a new lease with enough funds for tenant improvements in this current economic environment would be an additional hurdle.

CONSIDERATION OF AMENDMENT BY ORDINANCE OF THE IMPLEMENTATION DATE AND MODIFICATION OF THE ADJUSTMENT DATES FOR INCREASES OF THE CITY OF SANTA ROSA MINIMUM WAGE CHAPTER 10-45 OF THE SANTA ROSA CITY CODE IN RESPONSE TO IMPACTS TO BUSINESSES CAUSED BY COVID-19 PAGE  
PAGE 6 OF 8

According to a recent Keegan and Coppin report, depending on the area and quality of space, office rent in Santa Rosa has been ranging between \$1.80 to \$2.50 per square foot. Similarly, rent for industrial space has been ranging from approximately \$1.00 to \$3.00 depending on type and allowable uses. Retail rent has been ranging between \$1.00 to \$2.75 triple net lease, also depending on location and quality.

The nation's workforce is facing similar financial challenges. In Sonoma County, the 24,486 March unemployment claims were nearly 16 times higher than the 1,564 February claims. Some of the hardest hit industries in terms of job or work hour losses – retail, hospitality and construction – comprise 30% of Santa Rosa's employment base, with an additional 39% of the workforce employed in professional services, administrative services and other service occupations that have been affected to varying degrees. Like businesses, workers' concern about paying rent or mortgage is high. Approximately 46% of Santa Rosa households rent their homes, with the average rent between \$1,600.00-\$1,900.00 per month. Across all sectors, Santa Rosa's median household income before the pandemic was approximately \$67,000.00.

**Unemployment Data:**

When Council first considered expediting a \$15.00 minimum wage in October 2019, the Santa Rosa MSA unemployment rate hovered around 2.6%, compared with 3.9% for the state and 3.6% nationally. At that time, as there were more jobs than available workforce, feedback from local businesses indicated competition for staff among certain businesses naturally drove up hourly compensation beyond minimum wage.

As yet, the Bureau of Labor Statistics (BLS) cannot precisely quantify the effects of the pandemic on the job market in March nor moving forward as regional economies begin reopening. However, per BLS, "it is clear that the decrease in employment and hours and the increase in unemployment can be ascribed to the effects of the illness and efforts to contain the virus." Any data contained in March surveys reference periods predating the many coronavirus-related business and school closures in the second half of the month.

Up until February 2020 unemployment had remained low, with the BLS listing Santa Rosa's February 2020 rate at 2.9%, the state at 4.3%, and the nation at 3.8%. In March, however, total nonfarm payroll employment fell sharply, reflecting the initial effects of the pandemic and efforts to contain it. Per an April 3, 2020, national BLS report, about two-thirds of the drop occurred in leisure and hospitality, mainly in food services and drinking establishments. Notable employment declines also occurred in health care and social assistance, professional and business services, retail trade, and construction.

According to a real-time analysis jointly conducted by Arizona State University and Virginia Commonwealth University in which the unemployment rate represents the share of the labor force who were classified as unemployed (i.e. includes workers who

CONSIDERATION OF AMENDMENT BY ORDINANCE OF THE IMPLEMENTATION DATE AND MODIFICATION OF THE ADJUSTMENT DATES FOR INCREASES OF THE CITY OF SANTA ROSA MINIMUM WAGE CHAPTER 10-45 OF THE SANTA ROSA CITY CODE IN RESPONSE TO IMPACTS TO BUSINESSES CAUSED BY COVID-19 PAGE  
PAGE 7 OF 8

were laid off or furloughed, but does not include individuals who were not working and were not looking for work), the national unemployment rate was 3.8% in February 2020, 4.5% in March, and 20.2% in April (California's numbers may vary from these national averages). It is assumed that a large share of the unemployed comprising the April figure may be quickly recalled to their previous jobs once the economy reopens, however there is no clear data regarding the number of jobs likely to be restored, the number of individuals likely to be reemployed, nor the extent to which employee hours will be fully restored.

**Outreach:**

Local jurisdictions that adopt a minimum wage that differs from the State are required to provide notification to businesses each time the local minimum wage is adjusted. In preparation for the July 1 start date, staff had prepared an outreach and notification strategy that included a mailer to all 13,300 Santa Rosa business tax certificate (aka business license) holders and regional accounting firms, as well as a traditional and social media plan. As staff pivoted to respond to the emerging crisis, the mailer was held prior to printing and the media campaign preparation also paused. Should the implementation dates be adjusted, the notification process can be restarted with minor edits to the mailer, and additional multi-platform outreach regarding the delay and new dates incorporated.

**Enforcement:**

Changes to Santa Rosa's local minimum wage implementation and adjustments dates do not change the enforcement process, which is under the jurisdiction of the State Labor Commissioner. The elements in ORD-2019-014 that bolster the Labor Commissioner's penalty options are not recommended for change and would remain in place. Additionally, the extension of a tiered rate between small and large businesses during 2021 would not add complications to enforcement as the State minimum wage rates are currently tiered and remain out of synch until January 1, 2023.

FISCAL IMPACT

Expenses associated with ORD-2019-014 had been planned for in the FY 2020-2021 proposed budget and included increases related to part-time seasonal workers hired by Recreation and Parks. Budgets related to these costs have been dramatically altered and will be adjusted in the budget as a result of the current extended health orders as well as the State's roadmap to modify the stay-at-home order.

The estimated cost for a revised outreach plan including printed and mailed notifications are budgeted within and can be assumed by the Economic Development Division's program funds.

### ENVIRONMENTAL IMPACT

The proposed action is exempt from the provisions of the California Environmental Quality Act (CEQA) under section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and that no further environmental review is required.

### BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On April 10 and April 24, 2020, the Economic Recovery Taskforce reviewed and discussed the various options on how best to address this issue, weighing impacts to both employees and business. The Taskforce ultimately decided to present Council with the options outlined in this report for discussion along with a recommendation to take no action.

### NOTIFICATION

Not applicable.

### ATTACHMENTS

- Attachment 1 - Ordinance ORD-2019-014 – Santa Rosa Minimum Wage
- Attachment 2 - Redlined Santa Rosa City Code Chapter 10-45.030 - Minimum Wage
- Ordinance

### CONTACT

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