



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 10/15/2024

To: Sonoma County Board of Supervisors

Department or Agency Name(s): County Administrator's Office

Staff Name and Phone Number: Yvonne Shu 565-1739; Christel Querijero 565-7071

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Consideration of a Periodic Adjustment to the Living Wage Hourly Rate

Recommended Action:

Consider options and provide direction to staff on a potential periodic adjustment to the Living Wage hourly rate and by what amount, to be effective July 1, 2025.

Executive Summary:

On June 4, 2024, the Board of Supervisors approved amendments to the County's Living Wage Ordinance, including consideration of a periodic review and potential adjustment of the Living Wage hourly rate, to be conducted at least every four years. This periodic adjustment is separate from and in addition to any annual COLA. This item is the first instance of such a periodic rate review and includes options for the Board's consideration. Should the Board direct staff to move forward on a periodic adjustment, the increase would be effective July 1, 2025.

Discussion:

Background

The County's Living Wage Ordinance (LWO) went into effect on January 1, 2016. https://library.municode.com/ca/sonoma_county/codes/code_of_ordinances?nodeId=CH2AD_ARTXXVILIWA_S2-373SHTI Living Wage requirements are at the discretion of local jurisdictions and most commonly apply only as a condition of a government contract. A limited number of jurisdictions currently have a living wage ordinance. By contrast, minimum wage is a general law regulating all employment in a covered jurisdiction and must be paid by all employers in a jurisdiction; it is the lowest allowable rate of pay per hour that can be paid to an employee. With some exceptions, an employer must follow the highest applicable rate for their employees.

To date, the Board of Supervisors has increased the County's Living Wage rate through discretionary annual Cost of Living Adjustments (COLA) using the methodology outlined in the original LWO, with annual increases capped at the lesser of either the October Bay Area Consumer Price Index for All Urban Consumers (CPI-U) rate published by the Department of Labor's Bureau of Labor Statistics (BLS), or the annual COLA granted to County employees. An initial hourly rate of \$15.00 when the LWO was established in 2016 has likely contributed to the County's current rate being lower than other comparison counties and local jurisdictions, despite CPI adjustments from 2017-2021 that were incorporated into the initial increase in December 2021 and despite subsequent increases since.

The County's LWO allows deductions to the hourly rate, as follows:

- Credit of \$1.50 off the hourly rate, if a covered service contractor contributes to their employees' health care benefits or retirement plan;
- Credit of \$3.00 off the hourly rate, if a covered service contractor contributes to their employees' health care benefits and retirement plan.

On [June 4, 2024](#) <

<https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6705138&GUID=8B3ECF8E-01F7-4A59-8E7D-C7C75C05F727>>, amendments to the LWO were adopted, including the methodology for determining any increase to the LWO hourly rate, as follows:

- A) Automatically increase the hourly rate annually (COLA) by the same percentage as the October CPI-U, with no specified cap, and;
- B) Allow for a periodic review and potential adjustment to hourly rate to be conducted every four years that is separate from and in addition to the automatic COLA increase. □

Today's item is the first occurrence of a periodic review.

Periodic Review

It is useful to consider several factors when contemplating a potential periodic adjustment of the County's living wage rate, including:

- The current economic landscape, including the budget deficit at the state level and the decrease in County tax revenue
- Differences in how jurisdictions apply their respective living wage ordinances
- Role of the County with regard to Safety Net services versus city services
- As this is the first occurrence of a periodic review, any potential adjustment may be larger/more consequential than any future proposed periodic adjustment

Any increase to the County's living wage rate would result in higher contract costs and impact the County's General Fund, which supports the operations of most County departments. Affected covered contractors, including Community-based Organizations (CBO's), would need to build the additional cost into County contracts and amendments to accommodate an increase to the hourly living wage rate. Staff cannot estimate the magnitude of the impact to the General Fund, as the estimate would require data that is unavailable - that is, data that is aggregated across departments and granular enough to capture individual, employee-level data by contractor. However, staff was able to obtain information from other sources that can help to describe potential impacts.

Types of contracts. Staff evaluated contractor-reported data from living wage form submissions from FY 2023-24 and found that 14 of 41 contractors listed at or just above the County's living wage rate were care facilities. A sampling of other services provided at the same pay level included goat grazing, pest control, staffing services and towing. It should be noted, however, that many contractors represented in this data already pay above the County's living wage rate.

Based on an analysis of FY 2023-24 spend data against Business Process Outsourcing (BPO) contracts, Public Infrastructure's Purchasing Division has estimated that a \$4.00 increase (22% increase) in the County's living

wage rate of \$18.10 could result in \$1.5 million in additional costs for the set of contracts analyzed, or about a 20% increase in contract costs. These BPO's and contracts include janitorial, fleet repairs, auto parts, targeted grazing, sanitation services, veterans building management, and security services.

Community-based Organizations (CBO's). While many CBO's already pay above the County's current living wage rate, they could be challenged to meet the living wage requirement should a significant adjustment be approved. Any increase to the living wage rate presents challenges because CBO contracts are often structured on a reimbursement basis. With each new contract or program, CBO's must calculate whether they can afford to front the costs to provide the community services that the County would later reimburse. For multi-year grants, CBO's are often required to project their budget, along with corresponding outcomes, at the start of the contract for the duration of the funding. Any increase to the hourly living wage rate during the term of a contract would affect those projections. Finally, CBO's frequently are required to present balanced budgets on contracts, but there is often a funding gap that must be filled through other means. Higher operating costs could impact the amount of actual service that can be provided by Safety Net providers. □

A significant increase to the living wage rate could limit the services that CBO's provide to the community by reducing the number of people who could work on a given contract, shortening the contract duration, or a combination of both. Additionally, indirect cost limitations (e.g., overhead, administrative costs) specified in some contracts for Safety Net services would make working on behalf of the County more cost prohibitive, potentially resulting in a decrease in the number of partners willing to work on County contracts, putting the County's ability to meet its mandates at risk. A significant increase could also result in wage compaction for some CBO's.

Departments. Departments with covered contractors, especially in Health Services and Human Services, would need to work through any necessary amendments to existing contracts, if the proposed increase impacts the contractors' or partners' ability to provide the services outlined in the original contract and corresponding procurement. These amendments would represent a significant workload, as it would involve a cost analysis of each contract, discussions with each partner, and a determination of how best to readjust rates.

Sonoma County Fair & Exposition Inc. ("Fair"). Beyond impacts to the County's General Fund, a significant increase to the County's living wage rate would also affect the Fair. The Fair has approximately 400 temporary employees annually, and the recently passed LWO amendments require that Fair temporary employees be paid at the living wage rate. Fair lessees and service providers are also required to pay their employees the County's living wage rate. Fulfilling a significantly higher living wage rate requirement could result in higher fair entry fees.

County Employees. The LWO applies to County employees only as to the hourly rate; currently all County employees are paid above the living wage rate. A periodic increase, should one be approved, could necessitate a reevaluation of the County's classification plan, depending on the amount. Separately, as part of labor negotiations which begin in Fall 2025, County Human Resources will be conducting market comparison surveys for the Memorandums of Understanding that are set to expire in Spring 2026.

Hourly Rates

To date, the adjustments to the County's living wage rate have not exceeded 3.0% for any single increase. The current living wage hourly rate is \$18.10.

Calendar Year	Percent Increase	County's Living Wage Rate**
2016	N/A	\$15.00
2017*	3.0%	\$15.45
2018*	0.0%	\$15.45
2019*	3.0%	\$15.91
2020*	3.0%	\$16.39
2021	2.0%	\$16.75
2022	2.7%	\$17.25
2023	2.3%	\$17.65
2024	2.8%	\$18.10

* These increases were incorporated in 2021

** Rounding used in calculations

The consideration of a periodic increase that is potentially larger than 3%-5% can be put into perspective with the following table:

Sonoma County current living wage rate	If proposed rate was	Percent increase	Who has this rate
\$18.10	\$20.00	10.50%	California fast food workers
\$18.10	\$20.25	11.88%	Contracted <u>non-profits</u> of City & County of San Francisco
\$18.10	\$20.48	13.26%	Town of Sonoma living wage
\$18.10	\$20.96	15.80%	Contracted <u>for-profits</u> of City & County of San Francisco
\$18.10	\$21.00	16.02%	California: covered health care employees of medium-sized counties (fall 2024)*
\$18.10	\$21.24 \$21.25	17.40%	City of Petaluma living wage City of Sebastopol living wage
\$18.10	\$22.33	23.37%	City of Santa Barbara living wage
\$18.10	\$22.61	24.92%	Santa Cruz County living wage

* Recently enacted but with phased implementation (see [≤ https://www.dir.ca.gov/dlse/Health-Care-Worker-Minimum-Wage-FAQ.htm](https://www.dir.ca.gov/dlse/Health-Care-Worker-Minimum-Wage-FAQ.htm))

Options

Staff proposes the following options for the Board's consideration:

Option 1: Increase rate with the annual CPI adjustment effective 7/1/25; no periodic adjustment

Assuming a CPI of 3.5%, the LWO hourly rate would increase to \$18.73 on 7/1/25. The actual increase would be calculated using the October Bay Area Consumer Price Index for All Urban Consumers (CPI-U) rate published by the Department of Labor's Bureau of Labor Statistics. □

Because this option would not result in a periodic adjustment, the Board could choose to schedule another rate review at its discretion, potentially as soon as next year. Staff recommends that any consideration of a periodic rate adjustment occur in the fall timeframe, so that there is adequate time for stakeholders to plan ahead of a July 1 effective date.

Option 2: Increase LWO rate to \$22.00 per hour effective 7/1/25 (staff recommendation)

Calculated by using current Petaluma and Sebastopol living wage rates (\$21.24 and \$21.25, respectively) and adding a 3.5% COLA, this option would bring the County's rate on par with cities in Sonoma County that also have living wage rates. □

Option 2A: Because this would represent a 22% increase over the County's current rate, one implementation option could be to phase this periodic increase over several years (e.g., 7% + CPI over three years).

Option 3: Increase LWO rate to \$23.40 per hour effective 7/1/25

This option is calculated by using County of Santa Cruz's current rate (\$22.61) and adding a 3.5% COLA.

Option 3A: Because this would represent a 29% increase over the County's current rate, one option could be to phase this periodic increase over several years (e.g., 9.6% + CPI over three years).

This option would have an impact on County employee pay scales and the County classification plan and would require further analysis by the County's Human Resources department.

Implementation

Should a periodic rate increase be approved by the Board, staff will return with a resolution to increase the County's Living Wage hourly rate to be effective July 1, 2025. The rate will incorporate the October CPI rate and will equal the amount approved by your Board today.

New and existing contracts and LWO-covered transactions would be subject to any increased rate effective July 1, 2025. Departments would need to work with any affected providers and partners to amend contracts as needed.

Strategic Plan:

N/A

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?

Yes

Since the County does not track individual-level employment and geographic data of its contractors' employees, it lacks the granular data needed to understand how or if the overall LWO affects local residents. The County enforces the LWO through language in its contract agreements, but there is no mechanism to evaluate its direct impacts. See attached analysis for additional details.

Prior Board Actions:

- 06/04/24: Adopted an Ordinance to amend Sonoma County Code Chapter 2, Article XXVI, "Living Wage" to establish periodic LWO rate review (Second Read)

- 12/12/23: Adopted resolution to increase the Living Wage hourly rate by 2.8% to \$18.10.
- 06/12/23: Provided direction to staff on cost of living adjustment parameters. Established periodic LWO rate review. Confirmed initial draft of proposed amendments.
- 04/18/23: Adopted an uncodified ordinance to allow for a supplemental increase of 2.26% to the Living Wage hourly rate, for the required Living Wage rate to be \$17.65 per hour, effective July 1, 2023. (Second Read)
- 12/6/22: Adopted resolution to increase the Living Wage hourly rate by 2.74% to \$17.25
- 12/14/21: Adopted resolution to increase the Living Wage hourly rate to \$16.75 and approved Living Wage Ordinance work plan. □

FISCAL SUMMARY

Expenditures	FY24-25 Adopted	FY25-26 Projected	FY26-27 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
General Fund Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:

Any increase to the County’s living wage rate will result in higher contract costs and impact the County’s General Fund. Staff cannot project the total dollar amount of any proposed increase, as the County does not track individual-level employment data of its contractors, nor is there a central repository for active LWO-covered contracts across all County departments.

A periodic increase could also necessitate a reevaluation of the County’s classification plan, depending on the amount, and could increase overall County workforce costs. Options 1, 2, and 2A will not result in fiscal impacts, as the starting salaries of County job classifications will exceed the proposed rates before July 1, 2025. The impact of the periodic adjustment associated with Option 3 cannot yet be quantified, as the calculation would depend on the results of negotiations for affected job classes.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

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Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

Attachment A: Racial Equity Analysis

Attachment B: Presentation

Related Items "On File" with the Clerk of the Board:

N/A