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To: Sonoma County Board of Supervisors, County Administrator Veronica Ferguson and county staff

From: Dr. Peter Hall, Urban Studies, Simon Fraser University

Thank you for the opportunity to review the estimates of the potential fiscal impact of the proposed County of Sonoma Living Wage Ordinance on the Charles M. Schulz-Sonoma County Airport (STS). These estimates include both those contained in the report prepared by Dr. Jeannette Wicks-Lim, as well as the estimates prepared by Mr. John Stout, Airport Manager. I also appreciated the opportunity to discuss the estimates by phone with Mr. Stout on 12 November, and to participate in a conference call on 13 November with him, county staff, and leaders of the Living Wage campaign.

In this brief letter, I would like to address five points:

- 1) The financial management of the airport as an 'enterprise department' implies that there is essentially no mechanism for the costs of the Ordinance to be passed on to the County. This is consistent with management of most United States airports, it was confirmed in my discussion with Mr. Stout, and Dr. Wicks-Lim's report is correct on this point.ⁱ The airport as a self-funding entity achieves an approximate balance of expenditure and revenue, which Mr. Stout estimates to currently be in the order of \$5-6m per year (\$4.2m in 2013/4).
- 2) In her study, Dr. Wicks-Lim estimated the costs of the proposed ordinance by using available studies about the fiscal impacts of the Living Wage Ordinances implemented at two public airports: San Franciscoⁱⁱ and Oaklandⁱⁱⁱ. I was a co-author for both of these studies. Dr Wicks-Lim concluded that, "averaging of these two cost estimates, I estimate that businesses at the airport would face cost increases in the range of 0.9 percent of total revenue" (page 11). The cost estimates in the San Francisco and Oakland studies were conservative for two reasons. First, they did not include any compensating benefits for

employers such as reduced employee turnover and improved worker productivity. Second, they were generated for two predominantly scheduled air service airports, where the share of low-wage passenger service employment is higher than it is at STS. However, Mr. Stout has argued that the general aviation operations of STS may be more price sensitive than scheduled air services. The implications of this reasonable argument are addressed in point #4 below.

- 3) I find that the costs of applying the Living Wage Ordinance to businesses with service contracts at the airport are modest, and in line with the estimate prepared by Dr. Wicks-Lim. The only airport service contract significantly impacted by the \$15 dollar an hour living wage law is a cost-plus contract to manage airport parking services. Mr. Stout estimates the costs of increasing wages for parking service workers to be \$36,800 per year. All other service contracts for the airport are handled by the County's purchasing department, and they are often combined with contracts for services provided to other County Departments. The Airport Manager could not provide detailed data about these contracts. However, the overall point is that the cost impact of these contracts will be of the same order as similar County contracts covered by the Ordinance. These were shown by Dr. Wicks-Lim to be modest.^{iv} To minimize the administrative burden that would result from handling Airport contracts separately, and to ensure that the Airport also secures some of the compensating benefits from the Ordinance (such as new market entrants bidding for service contracts, turnover reductions and improved productivity), I would recommend that the Airport service contracts continue to be handled and covered in the same way as other County service contracts.
- 4) The Airport tenants will only be required to pay the Living Wage if they have both, (a) 25 or more employees working at the site of the lease, and (b) that they generate at least \$350,000 annual gross receipts. These are the thresholds for leased property in the proposed Living Wage Ordinance.^v It was confirmed in my discussion with Mr. Stout and the conference call that of all the leases at the airport it is likely that only three will be affected by the ordinance. It is essential that the Board of Supervisors and general public understand that the proposed Living Wage Ordinance will not cover most leases at the airport. It is also important that the coverage of sub-tenants be confirmed, since this may affect one of the industrial property tenants.

Conversation with Mr. Stout identified three tenants which have enough employees and generate enough revenue, and which also pay wages below the Living Wage level, and which hence may be affected:

- a. Kaiser-Santa Rosa Jet Centre and Sonoma Jet Centre: these firms provide services to the corporate jet and other general aviation operators at the airport. In the absence of detailed wage data, Mr. Stout reports that these tenants anticipate that

the Living Wage will affect between one-third and one-half of their on-site employees. Furthermore, some of the customers of these tenants may have the ability to switch to other airports (such as Napa) if price rises are significant. The best available wage data indicates that the estimate that one-third to one-half of employees of these tenants are currently paid less than \$15 per hour may be correct. However, even entry-level employees in this sector earn substantially more than the current state minimum wage (\$9 per hour). The U.S. Census Bureau's Quarterly Workforce Indicators provides monthly average earnings for all employees and for those who started working, by quarter. For the "Support Activities for Air Transportation" sector for Sonoma County for 2014, the available data range from \$3,400 to \$4,000 per month (or \$19 to \$23 per hour) for all employees, and from \$1,900 per month (or \$11 per hour) and upwards for entry-level employees. This means an expected maximum wage increase of 36%, rather than the 67% used by Dr. Wicks-Lim in her study (which was based upon an increase in wages from the current California \$9 an hour minimum wage to the \$15 an hour living wage level). In the absence of further information from the affected tenants, this U.S. Census wage data provide more evidence that the Living Wage increase is likely to be affordable and without substantial adverse effect.

- b. Sky Lounge Steakhouse, including restaurant and kiosk: currently this tenant does not employ more than 25 employees but this may change if the airport successfully attracts additional scheduled air services. With a fixed rental for the restaurant, this tenant does not have any mechanism to transfer higher wage costs to the Airport without renegotiation of their lease. The kiosk lease is based on revenue-sharing, in which the rent is a percentage of sales. If both parts of this lease were based on revenue-sharing, the restaurant would be somewhat protected from any decline in sales should they pass the cost of a Living Wage increases on to their customers. It may in any event be appropriate for the Airport Commission to renegotiate this lease, and perhaps separate the restaurant and kiosk leases in order to introduce some competition, especially if scheduled air services do expand.
- 5) For the foreseeable future, the living wage ordinance is unlikely to affect scheduled air service operations, or their expansion. The airport is currently served only by Alaska Airlines which generates substantial revenue through its STS operations, but does not have 25 employees at the site. Alaska must comply with similar wage and employment mandates at most major west coast airports it services, including competitor airports (SFO, OAK, SJC) and destination airports (SEA, LAX, ONT). The Airport Commission would like to expand scheduled air services at STS, and this is most likely to be achieved by attracting a new airline, or by an expansion of Alaska Airline services. In either case,

it is unlikely that the Living Wage threshold of 25 employees will be reached in the near future by Alaska or another airline.

In summary, in my opinion, the implications for the Sonoma County Airport of the proposed Living Wage Ordinance are modest and manageable with respect to service contracts, and are unlikely to have a negative impact on the desired expansion of scheduled air services. The Living Wage law will affect only a small number of tenants, and the Airport Commission should be able to work with these tenants to clarify, and if necessary, mitigate the effects while achieving the on-site and wider social benefits of paying higher wages.

If you have any more questions, please do not hesitate to contact me by email at pvhall@sfu.ca.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter V Hall', with a horizontal line underneath.

Peter V Hall, Professor

ⁱ Jeannette Wicks-Lim. 2014. *An Assessment of the Fiscal Impact of the Proposed Sonoma County Living Wage Ordinance*, University of Massachusetts, Amherst, Political Economy Research Institute (PERI) September 2014. Downloaded at: <http://northbayjobswithjustice.org>. See pp. 10-11 and 29-30 on the Sonoma County Charles Schultz Airport.

ⁱⁱ Reich, Michael, Peter Hall and Ken Jacobs. 2005. "Living Wage Policies at the San Francisco Airport: Impacts on Workers and Businesses," *Industrial Relations* 44(1): 106-138.

ⁱⁱⁱ Zabin, Carol, Michael Reich, and Peter Hall. 1999. *Living Wages at the Port of Oakland*. Berkeley, CA: Center for Labor Research and Education, Center on Pay and Inequality, Institute of Industrial Relations.

^{iv} In her report summary, Dr. Wicks-Lim states that "County service contractors will experience, on average, a cost increase equal to 1.2 percent of their revenue. Among these covered businesses, service contractors take up the largest share of the County's budget." (page 1)

^v See proposed Living Wage Ordinance at <http://northbayjobswithjustice.org>