COUNCIL AGENDA: 04/21/2026
FILE: 26-433
ITEM: 3.5

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Councilmember Candelas
Councilmember Campos
Councilmember Ortiz
Councilmember Casey

SUBJECT: **SEE BELOW**

DATE: 4/17/2026

Approved

Date: 4/17/26

SUBJECT: Revisions to City Council Policy 3-3, Living Wage Policy, Relating to Living Wage Setting Methodology for Annual Rate Adjustments

RECOMMENDATION:

Approve staff recommendation with these additions:

1. Due to the current methodology, the annual increase in the Living Wage for FY 25-26 was set at $0, meaning that the lowest-paid workers on City contracts received no cost of living increase for the current year. We therefore direct staff to add a "catch-up" adjustment be made by applying the Consumer Price Index for All Urban Consumers (CPI-U) for 2025 to account for the lost year, before applying the 2026 CPI-U. This would apply to future wages following the July 1, 2026, annual adjustment, but would not make workers eligible for back pay in the current fiscal year.

2. If the U.S. Bureau of Labor Statistics ceases to publish the Bay Area CPI-U, staff will inform City Council by Information Memorandum of the change and the substitute referenced index, including analysis of the likely impact of that substitute on annual wage adjustment amounts.

ANALYSIS:

The City's Living Wage policy is intended to ensure that employees working under City contracts receive compensation that keeps pace with the cost of living in our region.

However, application of the current methodology for Fiscal Year 2025–2026 resulted in no increase to the Living Wage. Because the calculation relied on a specific measurement period that did not capture cumulative inflationary pressures, the resulting adjustment was set at $0. As a result, the lowest-paid workers on City contracts did not receive a cost-of-living adjustment for that fiscal year, despite continued increases in the cost of housing, food, transportation, and other basic necessities across the region.

This outcome highlighted a limitation in the existing approach: when inflation fluctuates or when the selected index period does not align with real-world cost trends, workers experience a loss in real wages. In light of these issues, the proposed update seeks to restore the intended function of the Living Wage adjustment by incorporating a one-time "catch-up" mechanism. By applying the CPI-U for 2025 in addition to the CPI-U for 2026 in the next scheduled adjustment, the City can more accurately reflect cumulative changes in the cost of living while maintaining a prospective-only approach that avoids administrative and fiscal complexities associated with retroactive pay adjustments.

Finally, the policy will rely on the continued availability of a regional CPI-U index. If the U.S. Bureau of Labor Statistics discontinues publication of the Bay Area CPI-U, it is important to preserve transparency in selecting a replacement method. Providing advance notice to the City Council, along with an evaluation of potential substitute index and their likely impacts, will help ensure continuity, and informed decision-making in future Living Wage adjustments.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.