

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 24, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *ps*

SUBJECT: BUDGET MEMO # 29: FISCAL IMPACT OF THE LIVING WAGE
(COUNCILWOMAN EBERWEIN'S AND COUNCILMAN SPECK'S
REQUESTS)

The following memorandum responds to the questions raised by Councilwoman Eberwein and Councilman Speck concerning the fiscal impact of the Living Wage policy.

Competitively Bid Service Contracts: When the City Council approved the Living Wage initiative in June 2000 for phase-in during FY 2001, staff provided estimates of the cost of implementing the Living Wage program for some elements of a Living Wage policy. Specifically, it was estimated that the annualized cost of the application to competitively bid service contracts would be about \$400,000 per year. This cost estimate had to be made without any experience in implementing such a policy, and was based on sampling and an estimate of what a Living Wage rate (\$9.84 per hour in FY 2001) fiscal impact would be.

Estimating the fiscal impact was difficult since few sound studies existed in this area, and very little hard data were available from other local governments that had instituted such a policy. At the time the policy was being considered by City Council, some advocates stated that there would be no additional costs, and some opponents estimated very large increases. Based on experience to date, it appears that the cost of the Living Wage policy, when applied to service contracts, will be at least \$500,000 in FY 2002. This revised estimate is based on the costs experienced to date as existing service contracts have been re-bid or renegotiated.

Given that this phase-in continues, the final cost of the Living Wage policy, as applied to service contracts, will not be known until sometime in early FY 2002. After the City has a full year's experience with the Living Wage policy, we will be in a better position to gauge the potential multi-year fiscal impact. It appears that outside the arena of service contracts, the Living Wage policy has not had an impact on other City contract costs, as most of these contracts (if covered by the Living Wage ordinance) have wage rates that are in excess of the \$9.84 per hour.

City laborer positions: At the time of the consideration of the Living Wage by Council, staff indicated that it would need to review the City's own wage policy for FY 2002, in particular, unbenefited low wage rate positions on the lowest end of the City pay scale, sheltered workshop positions in the mental retardation program area, and companion aides in the Department of Human Services. For City employees on the very beginning steps of the bottom of the City pay scale (grade 2, step A, B, C; grade 3, step A, B; step 4, grade A) the current hourly wage rate is below the Living Wage rate of \$9.84 per hour by any where from about \$1 per hour to 1-cent per hour). These are primarily beginning level custodial and laborer, and often seasonal, positions. In order to remedy this situation, persons in these positions will have their step accelerated until they reach a point on the City's pay scale that is at least the Living Wage rate. Staff is finalizing the details on implementing this and estimates the cost of this to be about \$50,000 per year.

Sheltered Workshop Positions: A second group of employees where a change is contemplated is in the mental retardation (MR) sheltered workshop where U.S. Department of Labor regulations permit the payment of less than the minimum wage based upon a person's ability. For example if the normal wage rate for a workshop worker would be \$7.00 per hour and that disabled worker was able to work at a 25% effective rate, then the wage rate paid would be 25% of \$7.00 or \$1.75 per hour. Most of the workers in this program are severely disabled. This method of payment of a portion of a normal wage rate is very common in sheltered workshop type settings across the United States. In FY 2002, it is planned that the "normal" wage rate be increased to the Living Wage rate of \$9.84 and then the percentage effective rates would be applied to this higher "normal" wage rate. This will cost about \$30,000 per year.

Companion Aides: In the Living Wage docket item of last June, the category of companion aides was raised as an area for review in relation to the Living Wage. While these aides are paid by the City (\$5.25 per hour for aides without training and \$6.00 per hour for aides with training) and Social Security is deducted, the City Department of Human Services (DHS) serves less as an employer to companion aides, and more as an agent who is handling the contract payments so that Social Security deductions and credits are made on behalf of the companion aides. At the same time staff was analyzing whether or not to apply the Living Wage to companion aides, the labor market was making the hiring of aides, at the wage rates the City was paying, very difficult. As a result, there is a client waiting list for companion aide services.

The FY 2002 budget includes some \$162,638 in additional funding to increase the companion aide wage rates to \$6.00 per hour without training (from \$5.25) and \$8.00 with training (from \$6.00). It is believed that the increases to these wage rates will enable DHS to recruit a sufficient number of companion aides and to reduce its client waiting list. Increases in the wage rates to the Living Wage level are not planned; if \$9.84 an hour were paid, it is likely that a higher level of trained aide will apply for the companion aide positions, thereby displacing the segment of the labor market that is now hired to serve as companion aides. In many cases, companion aides are marginally employable, and the companion aide position gives these persons a level of financial support that they may not otherwise be able to gain.