

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 24, 2012

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER 

SUBJECT: BUDGET MEMO #54: COST OF INCREASING THE CITY'S LIVING WAGE RATE

This memorandum is written in response to the City Council request for information about the cost impact of increasing the City's living wage for the parking management contract. In order to remain consistent with previous adjustments to the living wage made by City Council, this memo assumes an increase to the living wage would be applied across the board to other applicable City contracts, as well as those City employees affected by the living wage.

In order to determine the living wage, the City historically used a formula that takes into account the average poverty threshold for a family of four (updated annually by the U.S. Department of Health and Human Services) as well as the average cost for the provision of health insurance (as determined by the U.S. Bureau of Labor Statistics). The City currently has the living wage set at \$13.13 per hour, which represents the FY 2009 formula level. The wage has been held flat in recent years as a result of overall fiscal constraints. An increase to the City's salaries for, (our past policy has been to increase employee wages when they are lower than the living wage) living wage would have budgetary impacts on certain contracted services as well as on the cost of salaries for some City employees whose current wages are lower than those described in this memo. (Our past policy has been to increase employee wages when they are lower than the living wage).

Using the City's formula, the living wage since FY 2009 would have broken down by fiscal year as is shown in the table below. Also shown is the required funding that would need to be added to the FY 2013 budget in order to implement each of these options. For example, in order to bring the City to the FY 2013 level of \$14.32 per hour, City Council would need to add \$147,000 in funding to the FY 2013 budget.

| LIVING WAGE RATE YEAR | FORMULA-DRIVEN LIVING WAGE RATE | BUDGET "ADD" NEEDED TO IMPLEMENT |
|-----------------------|---------------------------------|----------------------------------|
| FY 2010 | \$13.65 | \$39,000 |
| FY 2011 | \$13.78 | \$49,000 |
| FY 2012 | \$14.02 | \$102,000 |
| FY 2013 | \$14.32 | \$147,000 |

A breakdown of the specific cost impact on both City employees and City contracts follows.

Impact on City Contracts

At the current rate of \$13.13, the City estimates it will pay a total of \$678,000 in FY 2012 on contracted labor living wages. About half of this living wage amount is attributable to the City's parking management contract. The next largest impact is the custodial services contract. The living wage does not apply to City construction contracts. City service contractors report the amount they spend each year in living wage. For FY 2012, fifty percent (130 of 260) contractors reported spending some level of living wage. Increasing the living wage rate to any of the levels shown above would have the following cost impact on the City's contractual services budget for FY 2013:

| FY 2012 Living Wage Costs - City Contracts | | LIVING WAGE RATE YEAR USED FOR FY13 BUDGET | LW PAY RATE | PROJECTED TOTAL LW COST | TOTAL COST INCREASE* |
|--|------------|--|-------------|-------------------------|----------------------|
| Current Living Wage Rate (FY09) | \$ 13.13 | FY 10 | \$13.65 | \$ 712,000 | \$ 34,000 |
| Estimated Total LW Cost | \$ 678,000 | FY 11 | \$13.78 | \$ 720,000 | \$ 42,000 |
| | | FY 12 | \$14.02 | \$ 735,000 | \$ 57,000 |
| | | FY 13 | \$14.32 | \$ 755,000 | \$ 77,000 |

* Approximately 50% of the cost increase for each of the listed rates is attributable to the City's Parking Management contract.

Impact on City Employees

Currently there are a limited number of City job classes that potentially (depending on the employee step) have hourly pay rates between \$13.13 and \$14.32. The number of employees will already be significantly reduced in FY 2013 if Council concurs with the proposed elimination of the A and B steps included in the City Manager's budget. The higher the potential new living wage is set, the greater the number of City employees that would be impacted, which then increases the cost. Increasing the rate to any of the levels shown above would have the following cost impact on the City's personnel budget for FY 2013:

| Living Wage Costs - City Employees | | LIVING WAGE RATE YEAR USED FOR FY13 BUDGET | LW PAY RATE | PROJECTED TOTAL LW COST | TOTAL COST INCREASE* | # OF EMPLOYEES IMPACTED |
|---------------------------------------|----------------|--|-------------|----------------------------|-------------------------|-------------------------------|
| Current Living Wage Rate (FY09) | \$ 13.13 | FY 10 | \$13.65 | \$1.02 M | \$ 5,000 | 19 |
| Estimated Total LW Cost | \$1.01 million | FY 11 | \$13.78 | \$1.02 M | \$ 7,000 | 19 |
| | | FY 12 | \$14.02 | \$1.05 M | \$ 45,000 | 99 |
| | | FY 13 | \$14.32 | \$1.08 M | \$ 70,000 | 107 |

* Includes the additional benefit costs the City would incur from the higher salary levels.

Total Impact on City Budget

The combined cost impact to both the City's personnel and professional services budgets, and therefore the necessary amount of the addition to the FY 2013 budget, are as follows:

| Current Living Wage Costs - City Employees & Contracts | | LIVING WAGE RATE YEAR USED FOR FY13 BUDGET | LW PAY RATE | PROJECTED TOTAL LW COST | TOTAL COST INCREASE |
|---|----------------|--|-------------|----------------------------|------------------------|
| Living Wage Rate (FY09) | \$ 13.13 | FY 10 | \$13.65 | \$1.73 M | \$ 39,000 |
| Estimated Total LW Cost | \$1.69 million | FY 11 | \$13.78 | \$1.74 M | \$ 49,000 |
| | | FY 12 | \$14.02 | \$1.79 M | \$ 102,000 |
| | | FY 13 | \$14.32 | \$1.84 M | \$ 147,000 |

A change to the City's living wage requires an amendment to the living wage ordinance. Such an amendment would need to be adopted prior to July 1, 2012 in order to impact all of FY 2013.