



**Request for City Council Committee Action
From the City Coordinator**

Date May 5, 2004

To Council Member Barbara Johnson
Chair, Ways and Means/Budget Committee

Referral to None

Subject Livable Wage Resolution Financial Analysis

Staff Recommendation None

Previous Directives

On April 14, 2004, Executive Committee passed a Resolution establishing a Livable Wage Ordinance of the City of Minneapolis, which was presented by Council Member Zerby. At that time the Committee asked for a complete costing to be presented with the Resolution at its referral to Ways and Means. Finance and Human Resources worked to prepare this information.

Prepared or Submitted by Amy Hirsch and Tara Barenok, 673-3344 and 673-3221

Approved by _____
John Moir Patrick Born Pamela French
City Coordinator Finance Officer Human Resources Director

Presenters in Committee: Timothy Giles

<p>Financial Impact (Check those that apply)</p> <p><input type="checkbox"/> No financial impact - or - Action is within current department budget. (If checked, go directly to Background/Supporting Information)</p> <p><input type="checkbox"/> Action requires an appropriation increase to the Capital Budget</p> <p><input type="checkbox"/> Action requires an appropriation increase to the Operating Budget</p> <p><input type="checkbox"/> Action provides increased revenue for appropriation increase</p> <p><input type="checkbox"/> Action requires use of contingency or reserves</p> <p><input checked="" type="checkbox"/> Other financial impact (Explain): Impact of increasing salaries explained in Background.</p> <p><input type="checkbox"/> Request provided to the Budget Office when provided to the Committee Coordinator</p>
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Community Impact (use any categories that apply)
Neighborhood Notification
City Goals
Comprehensive Plan
Zoning Code
Other

Summary of the Proposed Resolution

In summary, the livable wage resolution proposed by Council Member Zerby includes the following provisions:

- Definition of a Livable Wage as the wage necessary so that a full time employee does not need to spend more than 30 percent of their gross income to rent an average priced one bedroom apartment.
- References 2004 Housing and Urban Development estimates that the “Fair Market Rent” for a one-bedroom apartment in the Twin Cities metro area is \$743 per month.
- Establishes that a City of Minneapolis employee needs to be paid at least \$14.28 per hour to pay no more than 30 percent of their gross income on such an apartment.
- Directs the Human Resources Director to negotiate with appropriate bargaining units to reach an agreement to pay such a wage in a way that does not increase wages and salaries for employees making more than this amount.
- Directs the Human Resources Director to seek such changes to the State Pay Equity requirements to enact this policy.

The complete text of the resolution is attached to this analysis.

Financial Analysis

Assumptions

The Assumptions underlying this analysis are as follows:

- If the highest step in a classification is greater than \$14.28 per hour:
 - If the lowest step(s) in a classification is below \$14.28 per hour, the lowest step is assumed to increase to \$14.28 per hour.
 - The top wage in the classification remains unchanged.
 - The number of steps in a classification remains unchanged.
 - The salaries are spread on steps between \$14.28 per hour and the top wage. (This is also known as the wage split.)
- If the highest step in a classification is below \$14.28, then the classification becomes a one step classification with a wage of \$14.28
- Employees remain on the steps they currently occupy. If, as a result of standardizing wage splits, a step decreases, the step is unchanged.
- All City employees with salaries below \$14.28 per hour are included in this analysis if they were employed as of April 2004. This includes all permanent full time

positions, full time equivalents for part-time positions, intermittent positions, seasonal positions, and permit positions.

- Cost estimates are based upon the full cost of the positions – salaries, salary driven benefits (FICA, Medicare, PERA pension contribution, long-term disability insurance) and static cost benefits (blended single-family health insurance, dental insurance, life insurance).

Results

There were 79 titles were effected by the change. There are 238 positions in these titles. Of those positions, 153 FTE's are in steps that are below \$14.28 per hour. The majority of these positions are entry level with significant on the job training. The effects on positions with current incumbents at steps below \$14.28 per hour are displayed below:

Job Title	Total FTEs	Number of FTEs effected by Salary Change	Additional Wage Cost
AFSCME General & Technical			
Account Clerk I	7	5	15,130
Account Maintenance Rep	6	4	5,063
Central Alarm Station Operator	9	8	10,595
Clerk Typist I	1	1	3,203
Communications Coordinator	1	0	0
Community Service Officer	14.75	13.75	25,296
Concierge Convention Center	4.25	3.75	6,440
Copy Center Operator	5	3	7,181
Engineering Tech I Seasonal	3.5	2.5	8,684
Laboratory Helper	1	0	0
Legal Typist	8	1	953
MIS Assistant	2	0	0
Operations Support Tech II	1	0	0
Receptionist	1	0	0
Stock Clerk I	1	0	0
Sub-total	65.5	42	82,545
Teamsters #320 – Convention Center			
Attendant Conv Ctr	8.25	2.75	20,626
Conv Ctr Ops Maint Specialst	93.75	78.25	408,499
Sub-total	102	81	429,125
Laborers #363			
Attendant Impound Lot	7	3.25	14,713
Delivery Worker	4	0	0
Equipment Service Worker	19	3	10,912
Fuel Systems Aide	1	0	0
Janitorial Worker	17.5	3	12,158

Job Title	Total FTEs	Number of FTEs effected by Salary Change	Additional Wage Cost
Sub-total	48.5	9.25	37,783
Non-represented			
Coat Check Attendant	4	4	37,207
Student Intern Graduate Schl	6.5	6	28,639
Student Intern Undergraduate	7	7	42,557
	17.5	17	108,403
Outside Trades			
Electrician Apprentice	4	4	12,835
Sub-total	4	4	12,835
TOTAL Salary Cost Increase	237.5	153.25	670,691
Total Benefit Cost Increase for benefit eligible employees in these classifications			57,398
Total Increase in costs related to potential Fire Cadet Class (see below for additional information)			90,000
Grand Total Cost Increases			818,089

Effects on specialized employment programs:

The effects on the future hiring of police and fire cadets are significant. The wages for these two programs are below \$14.28 per hour. Currently, the Police department does not plan to use the cadet rank for recruitment. Salary and salary driven costs increase by nearly 50% under the \$14.28 wage.

The fire cadet program includes 22-24 weeks of intensive training. During this program, assuming 30 cadets, if the wage were adopted the costs would increase by nearly \$90,000.

In addition several programs like the election judge and summer employment programs of the Minneapolis Employment and Training Program are budgeted based upon a lump sum budget allocation. An increase in the wage for these programs would decrease the number of employees that could be hired in these programs and reducing the level of service.

Concerns

This analysis is based upon the best possible scenario, and is fairly conservative. This analysis highlights several concerns with the increase to a \$14.28 livable wage:

- *Wage increases outside of collective bargaining* – these wage increases would be mandated outside of the collective bargaining process. The City would not directly receive any favorable contract terms with the bargaining unit in exchange for these increases. This precedent is extremely problematic for the bargaining process.
- *Increases are outside of the 2% wage policy* – the resolution is silent upon how this wage increase interacts with the Council’s adopted wage policy. It is unlikely that negotiations could produce an outcome where these increases could be managed within the 2% cap. This status puts the ability to adhere to the wage cap in the future at risk.
- *Potential for “ripple effect” across other positions* – This analysis is silent on changes to other positions because the resolution does not anticipate such changes. However, it is unlikely this would be the case in negotiations. Entry level wages are rising without increases in wages of those with classification point scores above those positions could result in disputes about the fairness of the compensation system. Wages across the relevant bargaining unit and into the supervisory units could increase as a result. These costs were not estimated under the current methodology due to the time intensive nature of this analysis. Previous estimates of the “ripple effect” using a more simplified methodology produced an estimate of \$58 million.
- *Wage cost escalation* - In addition to the base increase to raise these positions to the \$14.28 wage, these increased costs would escalate annually in perpetuity. These costs would place greater pressures on departments as they are implementing business plans in alignment with the five-year financial direction.
- *Entry level wages are in the context of significant training in the employment* – Many of these classifications have significant training and development which takes place within the first year of employment. The resolution does not place a value on this training.
- *Cost of intern programs* – These programs would increase in cost since the current wage for these programs is significantly below \$14.28.
- *Ties wages to a housing market index which is volatile* – Considering these factors, the tie to a volatile index will likely to require 3-4 additional negotiations per year with the bargaining units effected. Additional positions would be effected by increases in the housing market, increasing these costs further.
- *Difficulties in recapturing wage increases when housing market declines* - Since the housing market indexes may decline, it might be necessary to negotiate to reduce

wages to be in line with a new index. This would be difficult if not impossible in negotiations.

Staff Conclusion

The current analysis is predicated upon conservative assumptions. The cost of the livable wage resolution could be considerably greater than estimated here. An ongoing funding source for the increase is not identified.